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NATIONAL POLICY AND ISSUES

DEVELOPING MARKET FOR MEANS OF PRODUCTION

HK240344 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 9,
15 Sep 80 pp 35-37

[Extracts from speeches Delivered at Biweekly Discussions on Economic Problems (Part II)--Article by Zhang Shenyi [4545 1957 5030]: "Carry Out the Principle of Combining the Two Regulations To Develop the Market for Producer Goods"]

[Text] Since the party Central Committee introduced the policy of combining regulation by planning mechanism with regulation by market mechanism, people have come to realize that the means of production should be treated as a part of commodities. Thus, the market for the means of production is gradually being enlivened.

The Capital Goods Market Is Becoming Enlivened

The circulation system for the means of production in China was established in the early 1950's in accordance with the guiding principle that the means of production are not commodities. The means of production are mainly distributed and allotted according to the state plan, thus restricting free circulation. For a long period, this system of circulation has given rise to many setbacks such as excessive control of distribution by planning mechanism, failure to link production with demand, excessive number of links in the chain of circulation and rigid control of price management. All this is not conducive to activating the national economy. However, the situation has taken a turn for the better since last year and the changes can be discerned in the following four aspects:

1. There is a considerable amount of free circulation of the means of production on the market. For example, in Shanghai, 0.2 million tons of steel products and 0.1 million cubic meters of timber were directly purchased through the means of free circulation last year; likewise in Liaoning Province, 0.16 million tons of steel and 0.1 million cubic meters of timber were purchased. Taken as a whole, in most provinces, municipalities and autonomous regions, the means of production purchased through free circulation accounted for about 10 to 20 percent of the total amount of consumption. However in some provinces such as Jiangsu, 20 to 40 percent was attained and the nearer one got to the grassroots, the more lively free circulation became. Take Jiangmen Municipality in Guangdong Province for example, where 44 percent of

coal, 27 percent of steel products, 55 percent of timber and 20 percent of cement was purchased through free circulation. In Changshu County of Jiangsu Province, 70 percent of all kinds of means of production was purchased through free circulation.

Where do the means of production in free circulation derive from? Apart from the products which are marketed by the industrial enterprises themselves, they are the results of mutual coordination among enterprises, exchange of goods kept in stock and the results of processing and refitting. In addition, the means of production in free circulation are obtained from the three categories of the means of production which are not subject to unified distribution. Last year, through coordination among production units all over the country, we got a considerable amount of the means of production--10 million tons of coal, 6 million tons of coke, 0.7 million tons of pig iron, 0.8 million cubic meters of timber and 0.8 million tons of cement; through exchange of goods kept in stock, over 3 million tons of steel products and some 3.8 billion yuan's worth of mechanical and electrical products were redistributed; in Jiangsu and Guangdong provinces alone, some 0.1 million tons of wire rods and small-scale steel products were processed; the means of production (including the three categories of the means of production) purchased, sold, processed and transported under the contract by the capital goods service companies, which are subsidiaries of supply departments, amounted to 3.5 billion yuan.

2. Part of the means of production distributed according to state plan are supplied in more flexible ways. The main aspects are summed up as follows. First, impose no restrictions on the purchase of some means of production so that they can be bought freely on the open market. This system is carried out in accordance with productive capacity: Some items are fully supplied without any restrictions. Take mechanical and electrical products for example. Of 157 products distributed by the State Planning Commission and the State Bureau in charge of handling goods and materials, most of the products could be ordered and bought freely on the open market this year with the exception of 11 items which were in fairly short supply. In Sichuan Province, out of 356 items of the means of production subject to unified distribution, 300 items were fully supplied without any restrictions; some can be bought freely on the open market but the amount is restricted to some extent. Take chemical materials distributed according to state plan in Shanghai for example. Over 90 percent of the small clients (the requirement accounted for less than 10 percent of the total volume of supply) could purchase the material freely on the open market and restrictions were only imposed on less than 10 percent of the large clients (the requirement accounted for more than 90 percent of the total volume of supply). In some localities, equipment for scientific research or maintenance could also be bought freely on the open market. Second, put into practice a system of rationing by coupons: after receiving the coupons allotted in a planned way, clients are able to purchase the materials at any branch of the supply departments whenever they need to. As the supplies are guaranteed, the clients are not in a hurry to purchase new materials. Instead, they make use of their own reserve of materials. Take the coupons for non-ferrous metal materials for example. Coupons for purchasing 104,000 tons of

materials were issued last year but by the end of the year, only 1,371 tons of materials were allotted. As a result, the stockpiled material kept by the clients was decreasing and the supply departments could turn over a part of their surplus reserve materials to the national treasury. Third, materials are provided on the basis of verification. Take Changsha, Zhuzhou and Hengyang, three municipalities in Hunan Province for example. Last year, the steel products which were needed for production in 24 machinery plants were provided by supply departments concerned in accordance with the production plans and on the basis of verification. As a result, the actual consumption of the materials was 17 percent less than the quota fixed by supply departments. Fourth, break down the conventions that no capital goods are provided for civil use. Take Shanghai for example. Last year, the supply department set up supply and marketing shops for steel products and more than 80 tons of zinc-plated pipes were provided for installing water meters in more than 7,000 households. In addition, some 250 tons of small circular steel products were supplied so that over 3,400 dwellers could have enough materials to repair their houses. All this was warmly welcomed by the masses.

3. New forms and experiences of promoting regulation by market mechanism have been created. First, the setting up of individual markets for the means of production: at the beginning, markets were temporarily set up for dealing with overstocking of products and selling goods in stock but now they have become permanent and thus promote the scale of new products and deal in futures. In addition, the markets have turned into commodity exchange centers selling and purchasing goods with flexible prices and without any controls. At present, such markets for the means of production have been set up in more than 60 big or medium-sized cities, of which Shanghai has become the nationwide exchange center for the means of production. Second, putting goods on the market through purchasing and selling at negotiated prices. Take the wire rod market in Changzhou Municipality for example. Last year, the price once rose to 900 yuan per ton but it dropped to 850 yuan after the supply department put the goods on the market through purchasing and selling at negotiated prices. The market price of wire rod in Guangdong once reached 1,300 yuan per ton but was soon reduced to 800 yuan after the supply department succeeded in processing the wire rod in batches and put the products on the market. Third, opening a path for developing overseas markets. Take Shanghai supply departments for example. In the purchasing and marketing of chemical materials, they sold the goods which had been kept in stock for a long time and bought materials which were in short supply. In so doing, they succeeded in earning \$4.8 million of foreign exchange and importing some 7,000 tons of chemical materials last year. In addition, an international trust business was established in Shanghai last October and as much as \$120,000 of foreign exchange was gained by the end of last year. In the first half of this year, foreign exchange earnings amounted to \$560,000 and the profits turned over to the state totaled more than \$100,000. Fourth, publishing journals introducing market conditions and business forecasting. The following journals are already in circulation: "Market Conditions of Goods and Materials" published by the State Goods and Materials Bureau, "Shanghai Goods and Materials Market" published by Shanghai, "Market Conditions of Materials in Sichuan" published by Sichuan Province, "Liaoning

Materials Market" published by Liaoning Province, "Trends in Goods and Materials" published by Hebei Province and "Trends in the Flow and Circulation of Materials" published by Guangxi Autonomous Region. These journals cover a wide range, such as reports on market conditions, advertisements, vocational knowledge and exchange of market experience. All this has played a big role in enlivening the markets for the means of production.

4. There has begun to be some competition on the market. The markets for the means of production have begun to be enlivened. However, when the enterprises are given the right to market their own products, some people are worried that the supply departments will have little business to do. As a matter of fact, competition is conducive to overcoming the bureaucratic workstyle and raising the level of management and service. Therefore, in those places where competition is encouraged properly, business is brisk and expanded. Take the supply departments in Beijing for example. Spurred on by competition, last year the total sales volume increased by 37 percent compared with the previous year. In the first quarter of this year, the sales volume of the Shanghai Mechanical and Electric Company rose by 8 percent over the corresponding period of last year. Of course, socialist competition should include both competition and cooperation. The enterprises should sell their own products according to the state policies and the supply departments should be active in marketing products or acting as commission agents so as to help the enterprises promote the sale of their goods.

Some Problems That Require Research and Improvement

The circulation of the means of production in China is subject to the direct control of state planning but the institutions for handling the circulation are set up by various departments or regions in accordance with the division of the administrative system. Such a state of affairs is harmful to promoting socialist production or circulation. To meet the needs of socialist commodity production and further develop the markets for the means of production, it is necessary to improve the work of planning according to the principle of integrating regulation by planning mechanism with regulation by market mechanism. In the system of planning and circulation, some reform should be made so as to fill the gaps and complete the links. Therefore, problems concerning the four following aspects must be dealt with properly:

1. There should be a steady and practical long-term plan. By observing the trends in the circulation of the means of production, it is obvious that for a long period, it is precisely such guidance afforded by long-term planning that we have been lacking and we do not leave a sufficient margin when drawing up a plan each year. In addition, there is a considerable gap with regard to the means of production. Thus the concept has been formed suggesting that under a socialist system, the supply of the means of production can never meet the demand. From the view of planning, there are not enough resources to go around and as far as production is concerned, people purchase whatever is produced and there is no competitive pressure at all. Under such circumstances, it is impossible, in fact, to enliven the circulation of the means of production.

Since the policy of readjusting the national economy put forward by the party Central Committee was implemented last year, the capital construction front has begun to be curtailed and the production quotas been comparatively put into effect. As far as the national economy is concerned, what is in short supply and what is overstocked can be seen more clearly. All this has provided conditions for reducing the scope of distribution of the means of production, enlarging market supply, carrying out competition and enlivening circulation. Therefore, it can be said that without the readjustment of the national economy, the market for the means of production could hardly be as active as it is today. We must have a stable and long-term plan in order to prevent the occurrence of guidance by planning which is divorced from reality and develop the present favorable situation which is based on readjustment.

2. The scope of production plans and construction projects which are of a mandatory nature should be gradually reduced. All this calls for reform of the current planning system so as to give the enterprises even more power to purchase and market the means of production and further enliven the circulation of the means of production. We hold the view that as long as the state manages to control the ratio between accumulation and consumption and bring about an overall balance, the scope of targets which are of a mandatory nature should gradually be reduced whereas the scope of targets which are for reference be enlarged. Otherwise, it will hold back the business operation of enterprises and the circulation of the means of production.

3. Production and circulation must be regulated by conscious use of economic levers. One of the striking contradictions in the circulation of the means of production lies in the sharp increase of such stockpiled goods as rolled steel and mechanical and electrical products. Such a situation is mainly caused by planning errors. However, there are also some contradictions between self-marketing (this refers to the principle of enterprises being allowed to market their own products) and the utilization of stockpiled materials. These contradictions cannot be solved simply by imposing restrictions on self-marketing but they should be handled by economic means taken on the basis of the improvement of planning. First, change the irrational phenomena of the current planned price system whereby products which are in excessive supply are profitable and fetch a high price whereas those in short supply are less profitable and of low price, so steer the enterprises toward going in for production according to demand. Second, implement a system whereby circulating funds cannot be used without compensation to enable the enterprises to strengthen their economic accounting, overcome blind accumulation of goods and ensure that the surplus means of production are "disgorged." Third, bring into full play the regulatory role of supply departments so as to maintain the equilibrium between supply and demand, lower the price of overstocked materials which are in excessive supply and make them available for the market. On one hand, the enterprises have to cut down the production of products which are kept in stock for a long time; on the other hand, they should enlarge the production of products in short supply by actively organizing processing, reforming the system and coordinating and ensuring that they earn certain profits. In so doing, the results are much better than those achievable by merely issuing administrative edicts and the market for the means of production will become more active than it is today.

4. Supply departments which distribute the goods and materials should be run as commercial departments for the means of production. Under socialism, the means of production are treated as commodities. The commercial departments for the means of production should promote circulation according to the principle of commodity exchange and expand the market for the means of production under the guidance of state planning. We hold that first, the scope of unified distribution should be reduced and the channels for commodity circulation be enlarged. Generally speaking, the means of production can be divided into three types of purchase system--namely planned purchase, priority purchase and free purchase--according to the roles they play in people's livelihood and the situation of supply and demand. The enterprises can sell all of their own products except those which are subject to purchase by the commercial departments for the means of production. All types of means of production should be supplied in full without any restrictions if the conditions allow. Those which are in short supply should be restricted by coupons. Therefore, the supply of the means of production should be based on the principle of speeding up the turnover and variety according to different conditions. Some of the means of production are directly supplied while others are transferred from nearby supply shops. All the supply shops must maintain an equilibrium between supply and demand and offer good service so that more means of production can be transferred, and commodity circulation on the market and turnover of funds can be accelerated. Second, regulate supply and demand by using the law of value. In order to keep abreast of the three types of means of production, it is necessary to carry out three kinds of price control system, namely prices fixed by the state, floating prices and free prices. Prices fixed by the state should be regularly readjusted in accordance with changes in supply and demand. Third, the circulation of the means of production should be promoted according to different economic regions and irrational links for commodity circulation should be reduced. Specialized companies or supply shops for the means of production must be set up in accordance with economic regions centered in the cities and it is necessary to provide supplies for the nearby production units or inhabitants and change the circulation systems which are divided by administrative departments or administrative regions into unified markets under socialism. Fourth, the specialized companies or supply shops of the commercial departments for the means of production should be developed into specialized commercial enterprises thus gaining initiative in business management. At the same time, the markets for the means of production should be run seriously. All production enterprises, no matter whether they are run by the whole people or the collective, or whether they be specialized companies or supply shops of the commercial departments for the means of production, can carry out transactions on the market, purchase freely and operate outside their own areas, thus enlivening the commodity circulation of the means of production.

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NATIONAL POLICY AND ISSUES

MERGING OF MAANSHAN STEEL ENTERPRISES DISCUSSED

HK150910 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 10,
15 Oct 80 pp 35-36

[Article by Lin Qiongquan [2651 3890 3123], Liu Xingli [0941 5281 0448] and Gui Yuming [2710 3768 2494]: "Three Factories Merge Into One and Develop Production Drastically--Before and After Merging of Three Steel Enterprises in Maanshan"]

[Text] There are three steel enterprises in Maanshan Municipal District; a big one, a medium-sized one and a small one. The first is the Maanshan Iron and Steel Company with a history dating back 40 years. It is one of the 10 biggest steel factories in China; the second is Zihu Municipal Iron Mill that was set up in 1958 (it first belonged to the company but was later taken over by the province in 1963); and the third is the Maanshan Municipal Iron and Steel Plant which was built in 1969 and began production in 1970. The three enterprises are situated in the same city, engaged in the same trade and are contiguous. Now the three units have merged into a single entity.

The Reasons for Merging

In early 1978 a merger between the Zihu Iron Mill and the Maanshan Iron and Steel Company was considered because when the province took over the Zihu Iron Mill it had four furnaces with a capacity of 72 to 74 cubic meters. Following the pattern of "small and complete," the mill built a 25-aperture coke oven and an 18-square meters sintering machine in a bid to produce 200,000 tons of iron a year. From 1963 to April 1978, its total investment came to 23.79 million yuan. But it achieved half the result with twice the effort and suffered a deficit for years. From 1969 when it resumed production to the end of April 1978, when it was officially merged with the Maanshan Iron and Steel Company, it lost 55.51 million yuan, more than twice the amount invested. Its highest annual output was only 60,000 tons and the tonnage ratio between iron and coke was above 1,000 kilograms (comprehensive coke ratio of the Maanshan Iron and Steel Company last year was 580 kilograms) and its best furnace utilization rate was less than 1. In addition, the Zihu Iron Mill has no material base of its own. Therefore, it had to purchase iron ores and dolomite from other places. It lacked

transportation facilities and often sought help from the Maanshan Iron and Steel Company for bringing in raw materials and transporting products off the premises. It was not in a position to undertake comprehensive utilization and recover chemical products. All coke oven gas, blast furnace gas and cinders were discarded. Around 1977 the mill was even harder put to maintain production, let alone promoting production. It was first planned during mass repair and maintenance work in 1977 that the No 4 blast furnace be expanded to 1,000 cubic meters. But the lack of funds was so serious that it failed to even repair the furnace, let alone expand it. Eventually, the No 4 furnace was discarded, leaving three furnaces that were just enough to manage production. This situation has forced people to find another way out. It was under these circumstances that consideration was given to merging the mill with the Maanshan Iron and Steel Company.

The Maanshan Municipal Iron and Steel Plant was built on the former site of a coke oven within the area of the Maanshan Iron and Steel Company. When the building of the plant was under preparation, it was reckoned that the plant could use the leftover bits and pieces (bits of coke and running gates) of the company. The plant was first installed with two furnaces with a capacity of 9.2 cubic meters (later expanded to 20 cubic meters and 14.5 cubic meters respectively).

In 1972 the Maanshan Iron and Steel Plant added a 250 rolling mill [as published] with billets provided by the Maanshan Iron and Steel Company. Yet, it still suffered a deficit. During the 10 years from 1970 to 1979, it lost 6.85 million yuan (excluding political compensation for small furnaces). From 1972 to 1978, the average cost for small-sized materials was 512 yuan per ton. Under this situation and witnessing the changes experienced by the Zihu Iron Mill after it was merged with the Maanshan Iron and Steel Company, the Maanshan Municipal Party Committee decided at the end of 1979 to merge the Maanshan Municipal Iron and Steel Plant with the Maanshan Iron and Steel Company. Thus, the three units merged into a single entity.

The Methods Used

The Zihu mill was officially merged with the Maanshan Iron and Steel Company on 1 May 1978. The provincial and municipal party committees presided over the signing ceremony and the two sides agreed to amalgamate under the following three principles. First, all the fixed assets of the Zihu Iron Mill must be handed over to the Maanshan Iron and Steel Company. Second, the company must supply the province with 80,000 tons of pig iron every year at selling price. Third, all the staff and workers of the Zihu Iron Mill must be transferred to the company with their wages temporarily frozen.

In January this year, the Maanshan Iron and Steel Plant was officially merged with the Maanshan Iron and Steel Company according to the following six principles. 1) Following the merger, the company must supply the municipality for a protracted period with 10,000 tons of pig iron and 10,000 tons of rolled steel every year at selling price with the specification and variety of goods to be decided by the municipality. 2) The fixed assets of the plant must be

transferred to the company according to their net value as of the end of 1979 and must be repaid within 2 years with three-fifths of the assets to be repaid by April this year and the rest in the first quarter of 1981.

3) The current funds of the plant must be transferred to the company for its own use. 4) All the staff of the plant must be transferred to the company and must be returned to the municipality by stages to meet the needs of the municipality and when the company itself has set a standard for recruiting workers. 5) The Maanshan Iron and Steel Company must be responsible for all the welfare accorded to retired staff as well as accident compensation. 6) Following final accounts by the end of 1979, all surplus capital construction material must be handed over to the company after deducting the materials owed as debts to other units.

The Results

The merging of companies is a good measure because it has helped develop production drastically and beyond expectation. After its merger with Maanshan Steel, the Zihu Iron Mill changed its name to the Third Maanshan Steel Iron-Smelting Plant. It suspended production for 4 months from August last year to carry out restructuring work. The 25-aperture coke oven that caused debts for many years was dismantled. The three furnaces were restructured to specialize in producing ferromanganese with an annual capacity of 30,000 tons. In May this year, the furnaces turned out 2,273 tons of ferromanganese with the cost per ton dropping from 1,117 yuan in January this year to 712 yuan, a decrease of 26.2 percent. Consumption of raw materials also decreased. The utilization rate of manganese increased from 66 percent to 74 percent. Iron ore consumption dropped from 3.9 tons to 3.3 tons. In April this year, profits amounted to 100,000 yuan, followed by 146,000 yuan of profits in May. In the past, gas was wasted. The plant has been producing enormous quantities of gas (8,000 cubic meters per hour). Therefore, the company plans to lay pipes for transporting the gas to the blast furnace of a rolling mill.

The Maanshan Municipal Iron and Steel Plant changed its name to Small Rolling Plant of the Maanshan Iron and Steel Company. The small furnaces were restructured into blast furnaces and the plant consequently stopped producing pig iron. The processing technology of the existing rolling machines was readjusted while heavy manual work was replaced by mechanization and automation. This plant mainly produces 50,000 tons of 8 to 14 millimeters steel rods and threaded steel urgently needed by the state each year. The company has decided to use the former site of the dismantled furnace to build a workshop with an annual capacity of 200,000 tons of small-sized materials. The workshop will be installed with equipment made by the company itself. The project was started in July this year and is expected to be completed by the end of next year. It was planned that 3 years after the workshop began operation, its capacity would be increased to 250,000 tons to enable the company to rectify the situation whereby the amount of materials used exceeds the quantity of steel produced. In the first half of 1980, this rolling plant produced 17,000 tons of materials with costs decreasing every month. It made 2.138 million yuan profit in the first 5 months.

The merging of the three enterprises also promotes the production of a number of industrial enterprises in the city. The Maanshan Municipal Party Committee has decided to invest 3 million yuan from the fixed assets of the former Municipal Iron and Steel Plant that were paid by the company this year in light industry, textile industry and the construction material industry. Of this amount, one-third will be used in the leather, garment and textile industries.

The merger has achieved drastic economic results because: 1) The enterprises proceeded from their own reality and made a clean break with the business method of seeking a system of "small and complete"; 2) The overall arrangement of production is rational and avoids duplication in construction and production and encourages each unit to fully display its productivity, and 3) Resources are used rationally.

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NATIONAL POLICY AND ISSUES

PROTECTION OF ENVIRONMENT, RESOURCES DISCUSSED

HK220438 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 10,
15 Oct 80 pp 28-29, 39

[Article by Ma Shijun [7406 0013 7486], chairman of the Chinese Physiology Society and committee member of the Chinese Environmental society; Yang Hanxi [7122 0698 3556], secretary of the State Committee of Man and the Biosphere of the People's Republic of China and committee member of the Chinese Forestry Society; and Chang Shuzhong [1728 2885 0022], chairman of the China side of the Associated Committee of the China and World Wildlife Foundation: "It is of Immediate Urgency To Protect Our Environment and Natural Resources"]

[Text] Editor's Note: The following article is jointly presented by some famous Chinese environmentalists and physiologists to draw attention to the above issue and to make suggestions. It should be highly appreciated by the departments and production enterprises concerned. Our natural environment is the material foundation of our economic development. Even our ancestors realized the stupidity of "draining the pond to catch fish" and "killing the goose that lays the golden egg," how can we not take the protection of the environment and our natural resources into consideration when we are carrying out the modernization process. To protect our natural environment first, we should prevent pollution and second, we should reasonably exploit the natural resources. This issue concerns not only our present economic life but also the interests of our descendants. Our socialist system has created for us the greatest possibility for coordination of the state's economic activities on the basis of all-round and long-term interests. The state should avoid direct control of the activities of economic units which should be encouraged to take an active and enthusiastic role. Only in this way can the economy be enlivened. But this does not imply that the different districts, departments and economic units can have complete freedom to do what they want. On some questions which involve the entire national and long-term interest, this is where our socialist economic system should make use of its advantages of centralized planning and uniform control. The protection of the environment and natural resources is an issue that urgently requires comprehensive regularization, legislation and tighter control by the state. This is indeed a matter of immediate urgency. [end editor's note]

Man's natural environment consists of an assortment of natural elements which surround us: the sun, the atmosphere, water, soil, living organisms and rocks. They are the fundamental resources for human survival and production. Environmental protection really entails the prevention of pollution and the protection and appropriate exploitation of natural resources.

Our country is huge in area and rich in resources. But since the founding of the People's Republic, the natural resources in some districts have been seriously damaged because of misguidance, problems in interpretation of ideology and defects in the management system. The extent of forest cover in our country ranks 120th in the world. In other words, we are lacking in natural forest. However, each year, about 200 million square meters of forest are consumed. Two-thirds of the figure is due to overcutting, woodland clearance and forest fires. From 1956-1965, an annual average of 16 million animal furs and skins were harvested. But now, it is only just over 7 million. Since liberation, about 10 species of wild animals have become extinct or virtually extinct, including wild horses, high-nose antelopes, a red species of threakiornis aethiopica melanocephala and so forth. More than 20 species are nearly extinct, including the long-armed gibbon, hill deer and the white-fin dolphin. The total area of grassland which can be used is over 3.3 billion mu but of this, over 700 million mu yields less than half of its former quantity of grass because it contains too much sand, has degenerated or is too saline. Each year, between winter and spring, the loss of meat caused by death and sickness of farm animals due to inadequate fodder is way in excess of the total amount purchased by the state. In the 1970's, the catch of fresh water fish was less than one-half that of the 1950's. The comparatively serious erosion of soil by water amounts to 1.5 million square kilometers. This is about one-sixth of our country's total surface area. The Huang He and Changjiang together carry away 2.6 billion tons of soil a year. This is equivalent to 6 million mu of good land. Since liberation, the surface area of land that has reverted to desert has increased by nearly 65,000 square kilometers (nearly 100 million mu). Of this, 91 percent has been caused by improper human economic activities. Because of the lack of unified management and proper planning, the amount of waste and damage inflicted on water and mineral resources has also been astonishing.

The natural environment is an organic entity in which each element is mutually connected, regulated and transformed. These connections and changes all occur according to predetermined natural laws (principally physiological laws) and are not subject to man's will. For example, overcutting in the upper reaches of a river may cause soil erosion in the lower reaches. Sedimentation may raise the river bed and result in flooding. Moreover, some forest animals may also disappear. Again, if physiological laws are not taken into consideration when dams are built for generating power this may obstruct the coming and going of marine life and cause the extinction of some valuable fish. It may also result in inadequate water supply in the lower reaches so that fields lack irrigation.

To take another example, if we indiscriminately reclaim land from lakes to grow more grain but the climate becomes drier, this can still cause a decline in production in fields over a wide area, including the fields around the lake. At the same time, the lake's ability to resist drought and flood may also be reduced. Moreover, the fishery resources and reeds used for making paper may also cease to exist. Many examples of this sort of problem can be cited.

Hence, there should be coordinated investigation into environmental protection and an overall plan should be devised. But now, the fact is that the whole body of our natural environment has been cut up and mined. The different production departments and the different districts consider only their own interests when utilizing natural resources. They care only about exploitation but not about protection, stress development but neglect management and they only get what they want without considering the situation as a whole or long-term benefits. Their views are partial and short-sighted. They do not adopt a scientific attitude towards the state's valuable resources and cause serious destruction of the country's natural environment. This has and will continue to cause heavy losses to industrial and agricultural production. Because of the continuous development of production, we may expect greater and more permanent changes in our environment accompanied by a much greater demand for natural resources. Hence, how to reasonably exploit our natural resources to the greatest extent is a very important topic which should be discussed during the process of modernization. For those resources which can be replenished, protection and reproduction are the bases of exploitation. The rate of consumption should be smaller than the rate of replenishment. Only this can insure that the resources will increase in quantity and improve in quality. Otherwise, we are 'draining the pond for fish' and causing damage even to our descendents. Our state has plans for management of the economy. The present damage to resources shows that there is a serious imbalance between the consumption of resources and the protection and management of them. During the present period of adjustment, this issue should receive serious attention. We should lay off renewable resources and give them the opportunity to flourish and recuperate. Those that cannot be replenished should be exploited with coordination among the different departments and also be put under scientific management. Therefore, to strengthen the protection of our natural environment is an urgent task during the present process of economic development. Our suggestions are as follows:

1. Under the leadership of the Central Government, the different departments responsible for planning should set up practical rules to protect, replenish (in the case of renewable resources) and enrich our natural resources. The departments concerned with development and consumption should at the same time have appropriate plans for the protection and rational utilization of natural resources. Environmental protection departments should participate in the formulation of rules and plans.
2. Each production department should set up and strengthen organs for the protection and management of resources. At present, in many departments and headquarters, the above task is only looked after by small sections with only executive power. Some departments do not even have anybody who is responsible for this task. Departments such as forestry, animal husbandry, agriculture, marine production, coal mining and metallurgy should each be responsible for the protection of forest, grassland, farmland, marine and mineral resources.
3. When carrying out the development of natural resources and constructing large-scale industrial projects, we should also evaluate their effect on the physiological system of our natural environment. Large-scale projects such as the building of the Three Gorges Reservoir, the direction of water

from south to north, and the development of the Three River Plain will have an enormous influence on our natural environment. In order to predict and control such influence, it is of vital importance to begin evaluation work on the quality of our environment. This will also enable us to remedy any possible damage to our natural development.

4. When a question concerns many departments, when it has a great effect on our natural environment and where there is no unified and powerful management department in charge, it should be brought under the control of the Environmental Management Department which should adopt an active role. Questions concerning soil, water and wildlife and the setting up of national conservation areas are some examples. The reasons are: 1) The production departments, though they should play the dual role of exploitation and protection of resources, tend to care only for the former, and neglect the latter. They do not realize that protection is for the sake of prolonged exploitation. They usually do not comprehend the serious consequences of continuous damage to our environment caused by inappropriate exploitation of resources. 2) Interfering with the physiological cycle will affect many departments and may cause imbalance and maladjustment in the production department. Take land as an example. The Agriculture and Plowing Department blindly clears forests and grassland. This may lead to bad windstorms and serious soil erosion. This will affect agriculture, forestry, animal husbandry, water supply and transportation. Projects undertaken by transportation, industry and other basic construction may unreasonably occupy land, thus affecting agriculture, city planning, transportation and industry and other departments concerned. To reclaim arable land from the lake will damage marine resources and reduce the water surface area. This will involve the Marine Product and Water Supply Department. Because of that, rational exploitation of land resources concerns many departments. Hence, it needs coordination in both professional knowledge and scientific management techniques. 3) The Environmental Protection Department should act as an organ for organization, coordination and balance among the different departments. It treats the environment as an entity and considers the different aspects that can influence the natural environment. We should begin with the question of appropriate exploitation of natural resources, and carry on the positive task of maintaining the equilibrium of the physiological cycle. Only thus can we achieve the aims of protecting our environment, prolonging the life of our natural resources and fully developing the national economy.

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NATIONAL POLICY AND ISSUES

DISCUSSION ON TURNING BUREAUCRATS INTO MANAGERS

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[Article by Wan Xiang [1360 6763]: "From Bureaucrat to Manager"]

[Text]

(I)

In order to speed up the tempo in realizing the four modernizations, important reforms are being progressively carried out in the economic management system in our country. The key problem in the reforms is still the transformation of people. That is to say, the kind of bureaucratic leadership in the past must be discarded. It must be exchanged for modern leadership by managers. Therefore, I wish to air my personal views on this problem.

The word bureaucrat is not a bad word in several foreign languages. It generally refers to government administrative personnel. Before the 19th century the word was broadly used. In the early 20th century, it had both a commendatory and a derogatory connotation. After World War II, the derogatory connotation superceded the commendatory one, but the commendatory sense was still retained. For example, in the West and Japan, to call someone a bureaucrat was not necessarily derogatory. It merely showed his status.

From the viewpoint of Western politics, bureaucrats are indispensable in any country. What counts is whether they are good or bad and whether they practice bureaucracy or genuinely do their own jobs in the interests of the country. We have recently done some study into the history of the modernization of several countries such as Japan and the Soviet Union and discovered that when they started their modernization, the number of bureaucrats was insufficient and had to be supplemented.

Let us take Japan for example. During the Meiji Restoration, the chief bureaucrats were drawn from the samurai. At that time, there were only 10,000 or so samurai. They were in fact ruling bureaucrats replacing feudal lords. By the time Japan started its modernization, the number of bureaucrats was insufficient. So a large number of minor feudal lords were recruited as bureaucrats. Thus, the stratum of bureaucrats increased from 10,000 people to 40,000 and then 50,000. The development of the modernization of Japan

depended on these people. At the same time, Japan took some new measures to train a new stratum of bureaucrats. This shows that in the division of work in society, the profession of bureaucrats exists. In the early stage of the course of modernization, this profession is indispensable. Later on, Japan gradually discovered that the strata of samurai, minor feudal lords and small gentry could not completely meet the needs of the development of modernization. Although new bureaucrats were being trained, there were still not enough. Japan was a capitalist society. If the enterprises were not run properly, it was bound to come to grief. This forced the bureaucrats and samurai to remold themselves conscientiously and turn themselves into better bureaucrats to lead modernized enterprises. It was because of this that Japan's capitalism at that time was strongly tainted with feudalism.

Besides, Japan at that time exercised an imperial policy and forcibly took over the markets in Korea, Taiwan, Southeast Asia and the greater part of the Chinese mainland. Even though the products they produced were not good, they could still resort to military and political measures to pursue their economic and trading policies in order to stimulate domestic economic development. Therefore, although Japan's bureaucrats were no good, they were still able to complete the modernization at that time.

After World War II, the American army occupied Japan. The American occupation administration took many measures such as carrying out land reform on a large scale, disbanding financial magnates and introducing the Western democratic system to weaken the imperial system acting in concert with the Japanese feudal system. This greatly reduced the feudal characteristics of Japan's capitalist system, enhancing the rapid development of Japan's capitalism. Simultaneously, the American occupation administration also took measures to reform the semifeudal bureaucrats in Japan, especially to dismiss all important managing staff in enterprises who were connected with old financial magnates. Large numbers of intellectuals returned from Europe and America, and petty intellectuals were substituted in place of the former feudal and semifeudal management personnel. After passing through a reform period of almost 30 years after the war, the present management personnel in Japan can be said to have been modernized. This accounts for the rapidity with which Japan's economic modernization is developing at present.

The modernization of the Soviet Union started in Lenin's time. It also found that there were not enough leaders, so some intellectuals and managing personnel of the czar's time had to be reinstated to lead the economic construction of the whole country. But at that time Lenin had already noticed the development of bureaucratism and hated it bitterly. Four or five years before his death, he continuously mentioned, in each of his articles concerning the economy, the necessity of guarding against bureaucratism. The modernization being carried out in the Soviet Union at that time adopted the capitalist method of large-scale production in enterprises and adopted the management methods of the capitalist Taylor system [Frederick Winslow Taylor (1856-1915), Pennsylvania and New Hampshire-educated inventor and engineer known as father of modern economic management] in the management of workers,

but everything was controlled by central government planning. This could not but increase the number of bureaucrats. Even during the time of Lenin, the number of bureaucrats grew very fast. Lenin saw that it was very dangerous to let bureaucratism proliferate like that without controlling it. Therefore, it was mentioned in many articles that bureaucratism should be opposed, the bureaucratic system should be changed and this should be done when the time was ripe. After Stalin succeeded Lenin, he did not act according to Lenin's desire in his life time. It turned out that the number of bureaucrats grew even larger and the bureaucratic system was even further consolidated. Nowadays, the number of people in the industrial bureaucrat group controlled by the Soviet Union amounts to about 600,000. If the military and administrative bureaucrats are added, the number is even greater.

Another big problem in the Soviet Union is the problem of workers' rights. In Lenin's time, staff members and workers in the Soviet Union still had the right to a say in the management of the economy. In Stalin's time, the system of one-man leadership was practiced, turning rule over the economy into something like a pyramid. The workers' right to speak gradually diminished and now they are practically without any right to speak. In Lenin's time, great importance was attached to the function of supervision of staff members and workers' congresses. In Stalin's time, the power of staff members and workers' congresses diminished. After the 1930's, the workers were practically deprived of the right to speak and the right of supervision from below disappeared.

In comparing the bureaucratic systems of Japan and the Soviet Union, we can see that the way of developing bureaucrats in the Soviet Union was quite different from that in Japan. After the protracted rule of the American army of occupation, the new bureaucrats managing the economy in Japan were attuned to the demands of the development of a capitalist economy. Whereas, in the Soviet Union, neither a comparatively good and effective format for the development of the socialist economy was established nor did a great number of administrative and management personnel really au fait with the demands of the development of a socialist economy emerge, that is to say, a new stratum of bureaucrats for the management of a socialist economy. Therefore, the economic development of the Soviet Union could only stagnate.

Over the past 20 years, the Soviet Union has discovered the seriousness of this problem and is carrying out some reforms. But these reforms have been lettered by dogmatism. To date, no fundamental changes have taken place. The system is still the one established in Stalin's time, in which bureaucrats control the economic life. Its method of administration and management is still the old method of administration and management of issuing administrative orders and is not carried out by using various kinds of economic levers to guide the development of the economy. In the Soviet Union, there is a faction of people who have some new ideas. They think that their set of centralized state power and control by administrative decree is still correct. What should be done is simply to employ more of the new discoveries in science and technology like computers to help improve the centralized controls. They consider that not only should centralized control not be weakened, but

also that a computer network should be built throughout the country capable of quickly collecting and analyzing the situation throughout the country so as to perfect the policy of centralized control.

From the above comparison, it can be seen that Japan is progressively turning its bureaucrats into managers of enterprises and establishments, but that the Soviet Union wants to employ computers to strengthen bureaucratic centralized control. Evidently, the method of the Soviet Union will not succeed. Its economic stagnation will continue.

(II)

Let us talk about China. The bureaucratic system of economic management in China is the worst and the most backward in the world. I think there are subjective and objective reasons. The subjective reason is the human factor and the objective reason is a question of system.

Let us first talk about the subjective reason: First, the great majority of the chief persons managing enterprises are laymen. According to an investigation made by the Liaoning economic committee, only about 20 percent of the people in the leading groups of the provincial industry and communications enterprises understand their professions. Even in Anshan which has a better foundation in enterprise management, expert leaders make up only about 30 percent of the members of the leading groups. The No 1 Machinery and Electricity Bureau of Shanghai has investigated 2,000 production management cadres in 64 key enterprises, of them only 16 persons are university and college graduates, that is to say, only 16 persons know some theory and have practical experience, amounting to 0.8 percent. The No 1 Machinery Department has investigated 249 key enterprises and has obtained statistics of cadres at factory level in more than 2,400 factories. Among them factory directors with primary and junior middle school education amount to 64.3 percent. Factory directors with senior middle school and college levels amount to 21.4 percent. Factory directors with a university level of education amount to 14.3 percent. The great majority of leading cadres in enterprises like these, including those with a university level of education, have not made a systematic study of enterprise management. They do not understand modern scientific management. Some even lack basic professional knowledge. Shanghai and Liaoning are two of the most solid industrial foundations in our country. If this is what the level of management personnel is like there, we can well imagine what it must be like elsewhere. This situation is evidently the direct, disastrous effect of the erroneous theory of "laymen all along leading experts" over the past 20 years or more, which resorted to lame arguments. It should definitely not be allowed to continue.

Second, as far as the chief management personnel themselves are concerned, they are chief management personnel of enterprises but they do not devote time and energy to learning the relevant professional knowledge and knowledge of management techniques. They rely entirely on their past experience of being senior officers and leading cadres to "command" (but not to manage) economic construction. Some senior officers are good at carrying on political movements

while others are accustomed to compelling others to act recklessly. When they come to new posts they do not reeducate themselves and do not change themselves from laymen into experts. Their way of thinking and working methods are the same old stuff. They do not calculate economic costs, do not care about economic results and do not give consideration to normal production order. They frequently use "putting politics in command," "doing political accounts" and "paying some school fees is truly fair and reasonable" and so on to defend their actions. They mechanically use political movements with a terrific din and mass campaigns regardless of manpower and materials in administering and managing economic undertakings, labeling them as "advanced" and "following the mass line." How can they avoid making mistakes? Incidents like "Bohai No 2" are by no means accidental and are not rare.

Third, they do not study, do not read newspapers and are completely divorced from reality. Although they have been involved in economic work for many years, they are still laymen in economic policies and economic decrees. Some have been factory directors and managers for many years. To this day, they cannot explain clearly what the eight specific economic targets are. These comrades are content to rest on their laurels, looking upon enterprises--such important economic undertakings of the country--as places for drawing official salaries and for enjoyment. They do not care about enterprises losing money, nor are they distressed by waste in production and construction. They drift along aimlessly relying entirely on their being old-timers. Formalism is very serious and extravagance and waste are also very serious. Rules and regulations are only followed mechanically.

Fourth, ideologically speaking, they care first and foremost about not losing their official positions. They pay attention only to what their superiors think of them, but they never care about the situation of the market. They do not pay attention to the variety, specifications or quality of the products. They disregard the question of profit in their factories. They simply use "fulfilling plans" and words like "overfulfilling plans" to protect themselves. They even make false reports. Such is the case in industrial enterprises and it is the same in agriculture. For example in Xiyang, they made false reports to win the praise of their superiors so that they themselves could be promoted and make a fortune. They completely neglected the livelihood of the masses of the people and never considered economic efficiency.

Fifth, they put fear before everything. No matter what the matter may be, they ask for instructions and make reports. They kick problems to be solved back and forth like a ball, without any ideas or thoughts of their own. A most typical example is the event of the Xian ball factory exposed by the press. They never make decisions on any problems but await the ideas of their superiors. They do not even handle matters which are within their functions and powers but submit them to the party committees for discussion. They fail completely to fulfill their duties as managers. Here we are not ready to mention other problems like the dilatory style of work, red tape and so forth.

(III)

Now let us talk about the objective reason. This is the problem of the economic management system.

First, government administration is not separated from enterprises and communes. The party is not separated from enterprises and communes. This then turns enterprises and communes, which are economic units, into appendages of party and government organs. Our country's economic system has been shifting back and forth from "stripes" leadership to "patches" leadership. It has never changed its nature of enterprises being under the leadership of government administrative organs. "Stripes" refers to the administrative leadership of central leading organs and "patches" refers to leadership of local government administrative organs over enterprises. At present, everybody is still talking about "combining government administration and people's communes," and the phenomenon of schools and factories "running society" has not yet been removed. Of course, it is difficult to have it removed at one stroke, but the problem must be solved in this direction. The outcome of investing administrative organizations with the power to administer powerless economic organizations is bound to be that whole sets of methods adopted by government administrative organs will permeate into enterprises giving rise to "official factories," "official commerce" and "official agriculture" and so on.

Second, whether the system of factory directors assuming responsibility is good or not should be studied seriously. I consider the system a great hindrance to the development of our enterprises. The leader is a nonprofessional. He has power but he is not able to assume responsibility, and those who actually shoulder the responsibility are without power. With the so-called factory directors assuming the responsibility under the factory party committee, nobody can work well and nobody carries on the work. The outcome is that the party does not lead properly and the enterprises do not lead properly. It is high time that this system of factory directors assuming the responsibility under the leadership of the party committee was changed.

Third, the highly centralized planned management system deprives enterprises of the right to decide for themselves, binds leaders of enterprises hand and foot and stifles their initiative and creative spirit. In production, enterprises have to fulfill or overfulfill production plans assigned by the government. Leaders of enterprises hold themselves responsible only to plans from upper levels but not to factories, users or society. Whether things produced meet the needs of society or not does not concern enterprises and enterprises do not care. Such a system gives rise to the following. There may be 19 million tons of steel goods in store, but it is impossible to buy steel goods badly needed by society, and a large amount of foreign exchange has to be spent in importing steel goods each year. In the distribution of goods and materials, the state adopts the method of monopolizing purchase and marketing. Enterprises have not the slightest decisionmaking powers in handling goods and materials. All materials needed for production by enterprises are distributed by the state. No matter how unsuitable they may be,

the enterprises have no choice. All commodity goods and materials produced are taken away by commercial departments. A steel plant even has to apply to goods and materials departments for steel products needed for its maintenance. Such a rigid system of distributing goods and materials, in which production is divorced from necessity and enterprises are divorced from marketing, not only causes great losses to our country's economy but also results in leaders of enterprises showing no interest at all in the results of management activities. Usually a manager should be responsible for two main things: one is management and the other is administration. Nowadays a manager never worries whether his products can be sold. In the absence of competition it is not necessary to carry out market investigation and market forecasts. Neither is it necessary to decide important matters and study the development of new products in accordance with the needs of the market. In this way, the national economy is without vigor and enterprises are without vigor. In finance, we practice state monopoly of revenue and expenditure. This brings a lot of problems in our economic activities. They are: 1) Enterprises are without certain rights of financial expenditure and cannot develop themselves with their own efforts. They cannot develop new products by making use of or acting according to, market demands. This causes enterprises to lose their vigor. 2) Enterprises lack the financial capacity to encourage staff members and workers who have made contributions to the production and management activities of the enterprises. It is difficult to implement or consolidate the principle of working more and receiving more. It is difficult to give play to the enthusiasm of the broad masses of staff members and workers. 3) All profits are turned over to the higher authorities and the government subsidizes losses. There is no significance to whether an enterprise does well or not. This causes leaders of enterprises to lose the spirit of forging ahead to run their enterprises well. Since enterprises lack the internal motive force to run production properly, production cannot be developed rapidly and difficulties in financial sources emerge. Enterprise losses are a rather common phenomenon in our country. In foreign countries, if an enterprise is not managed properly, it is closed. However, the reason why no enterprises are closed in our country is because artificial support is given them. In foreign trade, we monopolize all imports and exports. Enterprises do not know what is needed on the international market, and do not know quotations there. They receive no information about advanced technology. They are in a state of complete isolation from the world. It is impossible for an enterprise without internal motive force and external pressure to improve its products and to raise the competitiveness of its products on the international market. In enterprises without external pressure of competition, without internal motive force to run the enterprises well, and without the right to decide for themselves, it is very difficult to train large numbers of management personnel. As some comrades have pointed out, even the very best enterprise management personnel cannot give play to their wisdom in China's enterprises, nor can they run them well; and the worst and useless enterprise leaders can live in ease and comfort there.

Fourth, the cadre management system also quickens the government administrative character of enterprise leadership groups. In allocating leading cadres to enterprises, whether they are experts or not is not considered as the

fundamental criterion. Seniority is arranged according to records of service. If one is at a certain level, one is destined to be a leader at that level. A newly demobilized deputy regimental commander who had never worked in industrial or commercial enterprises before was assigned to a machinery factory in Shanghai with over 3,000 employees. The only reason for doing so was because his record of service placed him at that level. This equates economic work with work in the army and government administrative work. All cadres are state officials. They are at a certain level and they are appointed as officials at that level, regardless of the necessary criteria for enterprise management personnel. Since the systems of appointment used for enterprise management personnel and government administrative personnel are similar, a great deal of government administrative cadres are assigned to assume a leading role in enterprises. In enterprise leadership groups in our country, the ratio of lay cadres sent from the army, and from central or local government administrative units is very high. Naturally, the ways and methods used for government administration are brought to enterprises and things going against the laws of economics are bound to happen. Since enterprises are entitled to the same level as government administrative departments, leaders in some enterprises try hard to show off in accordance with the government administrative level by making their factories look more extravagant and grander. The phenomenon of enterprises being over-staffed has much to do with this. Furthermore, the erroneous guiding idea of "laymen all along leading experts" and frequent political movements prevent leading personnel in enterprises from trying conscientiously to turn themselves into experts. Under certain historical conditions, it is permissible and possible for "laymen to lead experts" but it is wrong to say "all along" it has been done.

Fifth, there is little democracy in factories. It is impossible to run and manage enterprises well without democracy. To be a good manager, self-motivation is needed, and at the same time, there must be supervision from below. Even in the Western countries, the enterprise workers' right to have a say is stressed in varying degrees. In countries with comparatively well-developed economies like Sweden, West Germany and Japan, the workers participate in the management or they have a considerable say. The slogan of "two participations, one reform, and three cooperations [cadre participation in productive labor and worker participation in management; reform of irrational and outmoded rules and regulations; close cooperation among workers, cadres and technicians] was originally put forth by Comrade Mao Zedong, but we have not implemented it properly. It was taken to Japan and has been realized to a certain extent in enterprises there.

(IV)

The combined action of the subjective and objective factors mentioned above has reduced our entire economy to a state of rigidity. An American economist, after comparing the existing socialism with capitalism, made some remarks which are worth serious consideration. He said, "People in socialist countries say that the capitalist system will inevitably perish. This may be

right. But I think it will not perish immediately. On the contrary, it will still develop to a certain extent. The main reason is that its cells are still alive and have vitality. These cells are our enterprises. They have vigor and competitive power and can weather storms. People go on and on about how wonderful the socialist system is. However, from the Soviet Union to China, I have discovered that your cells--enterprises--are rigid, without vigor and unable to withstand competition. This does not seem good because it cannot withstand a storm." Another American economist who has been in China said, "The equipment in China's factories is not bad. If the management methods in factories are changed properly, and the mental attitude of the workers and especially that of the enterprise management personnel are changed, the potential of the factories will be more realizable. At present, your enterprises lack vigor and are too constrained by rules and regulations. In addition, they are managed by people who are unable to adapt to the competitive situation in the world today, cannot adapt to the tremendous changes taking place on a global scale and cannot give play to the superiority of socialism. The reform of the economic management system must start here." One of our cells is the countryside and the other is the enterprises. Now we must adopt various methods to enliven them. Otherwise the reform of the economic system is hopeless.

How can we attain this? Personally, I think five changes should be made:

1. Enterprises must be changed from a pure production pattern to a managed production pattern. In the past, production was the only thing an enterprise did. It never concerned itself with the purpose of production. If an enterprise produces purely for the sake of production, it will easily become ossified. If production is changed to a managed pattern, a thoroughgoing change will immediately take place in our enterprises. We must have production of a managed pattern, must continuously improve our products and must study and strive for economic results. It will not do if we simply produce several big steel ingots and put them on display when we are asked by the government to produce a certain amount of steel. We must carry out production to manage and develop the economic cause of the whole country and to develop our own undertakings. Only in this way can we continuously set new demands for enterprise management personnel and force them to take a new attitude toward production and to adopt new methods of organizing production. This will also force them to pay attention to changes on market and to learn to compete.

2. Enterprises must be changed from units which merely carry out orders into units which make their own decisions. In the past, plans were decrees and everything had to be done according to plans. This left loopholes for people to exploit. If you asked me to produce a certain amount of steel, I would produce that amount of steel ingots. Whether they were needed or not I did not care. Anyhow, in quantity, the plan was fulfilled. Enterprises cannot just carry out orders. Changes are also needed in our planning system. Plans can only be for reference. They can never be decrees. Enterprises should be allowed to make their own policies under the guidance of the state plan. This change is very important. It requires enterprise management personnel not only to possess common management knowledge but to be able to

make a concise assessment of the market situation and to formulate correct policies. This actually places the prospects for development of an enterprise on the shoulders of the manager and not on the state plan. The state can only guide and cannot look upon enterprises merely as organs to carry out its orders.

3. Enterprises must be changed from organs without internal or external pressure into organs with internal and external pressure. Internal pressure is to link the good or bad management of an enterprise closely with the direct interests (such as wages and bonuses) of the staff members and workers. Then there will be internal motivation. On the basis of democratic management, everyone will try their best to run the enterprise well. Externally, there must be competition. Competition is the outside pressure. Without some pressure, things cannot be done well. Pressure pushes undertakings ahead.

4. The present command pattern for the economy (where everything is done according to instructions from above) must be changed for a democratic pattern. The personnel relations in modern enterprises are more complicated than ever before. Whether production is handled well, whether it is increasing and whether relations are coordinated well or badly are all extremely complicated. They require the manager of an enterprise to do a good job of organization. While visiting the United States and Japan, I felt that really big enterprises (big and complete) were rare. In most cases there were numerous medium and small enterprises surrounding a big one and serving it. Why do they pay attention to these medium and small factories? They said that medium and small factories have many advantages: 1) The flexibility of medium and small factories is great. They can be changed as their products are continuously improved. The cycle is short and the expenses small. Products can be frequently updated. This helps in competition. 2) Medium and small factories involve less risk and the capital can be used more freely. 3) Here many technical tests can be carried out to expedite the emergence of new techniques. 4) It is easier to handle personnel relations. The factories are smaller and there are fewer people. Managers and workers get along well. We have set up so many big and complete factories in our country. It is better to have more medium and small enterprises and at the same time to handle properly the relation between specialized trades and coordination.

5. The situation of ignoring science and technology and ignoring knowledge must be changed into a situation of attaching importance to knowledge and technology. Enterprises must be gradually changed from the labor-intensive pattern to the technology-intensive pattern. Some foreigners who have visited China say that our machines and equipment are not bad, but, of course, there is still room for improvement. At present, how to give full play to the efficiency of them is not just a problem of utilizing them but also a problem of fully mobilizing people's enthusiasm and initiative to give full play to the efficiency of the machinery. It is a world tendency to change enterprises from the labor-intensive pattern to the knowledge-intensive pattern. In this way our managers can no longer ignore science and technology or ignore knowledge, but have to increase their knowledge before they are qualified to be managers and are able to adapt to the developments of our time.

Only if the above five changes are put into effect in our enterprises can our present bureaucrats be changed into managers. Of course, I mean good bureaucrats with a strong enterprising spirit. As long as they have the inclination to do something and the environments for them to do such a thing is objectively provided, and as long as they work in a thoroughgoing manner in the direction of the five changes, I believe a great number of our comrades can be changed from bureaucrats into managers.

(V)

What are the criteria for a manager of a socialist enterprise? My personal view is that he must at least possess the following points:

1. He must have a strong, revolutionary and enterprising spirit, love his own job and be willing to devote himself to the four modernizations. As a manager, he must be eager to forge ahead, be content with his own job, wise and able to make good judgment, strive for high efficiency in his work and actively push his enterprise forward. He must be able to make full use of objective conditions to change the production conditions of the enterprise in order to create more wealth for the socialist society. This enterprising spirit includes the spirit to learn modestly. He neither relies on the authority of his superior in his work, nor does he take his cue from his superior, but he actively carries out the state plan according to the guidance of the state plan.

2. He must be highly capable of carrying out organizational and leadership work, and must have acute powers of judgment. He must be able to utilize his capacity of logical thinking to systematically analyze the cause and effect of each matter. He must carefully observe the situation of the market economy. He must keep abreast of technical and economic information, must be able to deduce regular developments from it and must be able to make correct judgment and policies. While reforms are being carried out in our economic system, the production in enterprises must not only suit the ever-changing needs of the domestic market but must also suit the needs of the international market. Management personnel must be ideologically prepared to adapt to change, must be capable of adapting to change and must set up scientific research organizations in enterprises and institutes for adapting the enterprises to the changes. They must link up internal production with scientific research and must adjust manpower, material resources and financial resources on a timely basis according to market fluctuations so as to produce products badly needed on the market. He must also be able to organize the enterprise to carry out management activities. The manager of a big enterprise must be broadminded. He must possess both national and international management knowledge. Proceeding from a broad scope, he must effectively organize and lead the work of market surveying and forecasting, and the work of formulating administration and management policy. He must also be able to launch a comprehensive technical service and collection of data to improve the products, and to continuously raise the competitiveness of the products at home and abroad. One very important point also included in the ability to conduct organizational work is to practice democracy within enterprises.

Shortly after liberation, great importance was attached to staff members and workers' representative rallies, but later on they were gradually overlooked. Democracy within enterprises is very important. It can make staff members and workers feel that they are members of the enterprises and inspire them to dedicate their lives to the enterprises. The manager of an enterprise should know how to rely on the masses of the people and mobilize them to run the enterprise well. Besides the motivation of material interest, there must also be the guarantee of democracy in politics.

3. He must have profound knowledge and also have knowledge and experience of special trades, that is, he must be an expert in his profession. This is also related to our educational system. I always think that in our educational system, the training of our students in basic knowledge is too poor, and the courses are divided too early and too narrowly. A student after his graduation knows something about the subject he has majored in but knows nothing about anything that goes slightly beyond that. Social science has the same problem. In my contacts with foreign specialists, I have discovered that their basic knowledge is broader and the foundation of knowledge in colleges and high schools is more solid. A manager must have broad knowledge before he can become a man of wide experience and can handle all kinds of concrete problems.

Bureaucrats exercise power from above, but managers depend on their ability and not on power and influence in leading work. Bureaucrats are satisfied with not breaking the law but managers must do everything possible to develop their enterprises. There are great differences between government organs and enterprises. Government administrative functionaries are not the same as management personnel either. If we are to create a course conforming to a Chinese pattern and to enliven our economy, the present method of government administration will not do. If the right of deciding for themselves is extended to the reformation of the system of organization in enterprises, and the state gives guidance to enterprises at the same time, our enterprises can then be developed. In short, turning bureaucrats into managers has become a very important problem at present. And at present, we do not have enough management personnel. Therefore, on the one hand, we must help the existing management personnel to study harder of their own accord and to remold themselves. On the other hand, the party and the government must hasten to take educational measures in training with great efforts, new and young administrative and management personnel. Furthermore, comrades who are doing economic work and those who are not doing economic work, all need to remold themselves and to conscientiously study harder to gain knowledge in current economic management and in modern management. Institutes for acquiring knowledge in economic management must be established and new, outstanding economic management personnel must be trained. The general aim is nothing more than the enlivenment of the cells in China's rural areas and enterprises through modern economic management personnel. Only in this way can the superiority of socialism be given full play and modernization among Chinese lines be realized.

NATIONAL POLICY AND ISSUES

ECONOMIC JOURNAL DISCUSSES INTEGRATION, COMPETITION

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[Article by Ma Hong [7456 3163]: "Integration and Competition in the Socialist Economy (II)"]

[Text]

(II)

Competition in the Socialist Economy Has Begun To Show Its Vitality

Integration in the socialist economy can be easily understood by most people. But many are skeptical about competition in socialist economy. There even exists various obstacles to competition. Although competition has met with various obstacles in practice and competitive activities have only recently begun, the situations in many places show that competition plays an active role in our economic activities, and it has demonstrated its vitality.

Competition will help enterprises to produce what is needed in market and overcome the defects of making products that are not needed and of the supply that is divorced from demands. It will force enterprises that are making unsalable products to turn to producing products that are in short supply in the market so that these enterprises will be able to readjust their production quickly to become competitive.

Competition will help enterprises improve economic management, strengthen economic accounting and increase economic results. Through comparison in quality, prices, salability and services in the market, enterprises will strengthen their economic management, improve quality, lower costs and increase profits for the interest of the state, their customers and themselves.

Competition will help enterprises to step up research work, develop new technology, invent new products and constantly increase varieties of their products to enliven the market and meet people's various needs.

It will also help enterprises take the road of coordination and integration and increase labor productivity. Some enterprises, particularly small enterprises with limited conditions and a weak competitive position urgently

need specialization and coordination in production. They even demand integration so as to strengthen their competitive position. It is justifiable when some people said that competition is the catalyst for promoting integration among enterprises.

Why Is Competition Necessary in the Socialist System?

Socialist economy is commodity economy under the influence of the law of value. Therefore, basically it needs competition in order to fully display the role of the law of value and promote competition.

Under the condition of commodity production, the role of the law of value is mainly shown in the following two aspects: First, it improves labor productivity. That is to say, it lessens socially needed labor time that is required to produce per unit products. Second, it helps various departments to rationally distribute the labor force and readjust the relations between production and demand. But such role can only be displayed through competition. Experiences in our country and abroad prove that if we prohibit competition and rely solely on readjustment by the planning departments, then we are unlikely to utilize the role of the law of value.

Competition in commodity economy includes competition among producers of commodities (major competition), competition among buyers and competition between producers and buyers of commodities. These three forms of competition have one thing in common, that is commodity prices which are decided by socially needed labor time. Marx said that "different individual values must be averaged into a social value, that is, the above-mentioned market value. Therefore, competition among producers of the same commodities are needed. In addition, a market is needed for the producers to sell their commodities." ("Collected Works by Marx and Engels," Vol 25, pp 201-202) Engels also said: "The role of the law of value in the production of commodities can be implemented and the value of commodities can also be decided by socially needed labor time through fluctuations in competition and fluctuations in the prices of commodities." ("Collected Works by Marx and Engels," Vol 21, p 215) Thus, it is apparent that with competition, the law of value will be able to play its role to help enterprises continually improve labor productivity.

It is because of competition that the law of value helps various production departments rationally distribute the labor force. Engels said the law of value means that supply and demand constantly adapt to each other. Competition causes fluctuations of prices and adjusts production. When prices increase it means that social demand is increasing and production will consequently be increased. Decreases in prices means that social demand is decreasing and production will consequently be affected. Should competition be banned, the law of value will not be able to automatically adjust production. To prohibit competition actually means to hinder the production of commodities and to prevent the law of value from playing its role.

Competition was not allowed in the past when we were following traditional Soviet theory. This theory bans competition and takes the view which regards socialist economy as similar to the natural or seminatural economy of feudal society. Following the revolution, commodity production was considered to no longer exist in the Soviet Union. It was then suggested that commodity production be abolished and military communism be set up. Such view in fact regards socialist economy as natural economy. Stalin later acknowledged that commodity production still exists in socialist society. But on the other hand, he said that the means of production are not commodities and that the role of the law of value is to affect and not to adjust. In fact, such an assertion regards socialist economy as seminatural economy. Practice proved that this assertion does not accord with the law of the development of socialist economy and consequently it can in no way promote the economy.

The majority of the economists and the economic theoretical circles in our country after conducting studies and research and summing up experiences and lessons in our country have acknowledged that the socialist economy is commodity economy. According to their view, both the means of livelihood and the means of production are all commodities and the relations between the ownership by the "whole people" and that of the "collective" and the relations within the "whole people" are all relations concerning commodities. They also hold that the law of value has its role to affect and to adjust and that this law has been used in economic activities. But such views cannot be said to be major progress either in practice or theory. It is natural that some comrades do not agree with such views because of the economic situation in our country. Owing to our backward productivity, our commodity economy is still very weak and it is largely composed of natural economy. Consequently, it is often that people easily hold the view of natural economy and use it in studying and handling problems. Therefore, it is understandable that people hold different views toward developing commodity economy and launching competition. This problem can be solved through investigations, studies and practice.

In short, in order to step up socialist construction it is imperative to develop commodity economy in a big way. But to do this, we must launch competition; otherwise it is impossible to combine planning adjustment and market adjustment as well as to step up the development of our economy.

The Difference Between Socialist Competition and Capitalist Competition

Both socialist competition and capitalist competition have their own roles in promoting labor productivity of enterprises and enabling various production departments to rationally distribute the labor force. But competition has a negative role that cannot be avoided in capitalist society. However, in socialist society we can prevent and overcome this negative role because competition in our country is carried out under public ownership and planned economy while competition in capitalist countries is carried out under capitalist ownership that is coupled with anarchic production.

The competition in socialist economy differs in nature with that in capitalist economy in many aspects.

The participants in competition differ. In capitalist countries it is private enterprises that are taking part in competition. They are carrying out a life and death struggle. But the competition in socialist society is carried out by all enterprises under public ownership. There exists competition among these enterprises but such contradictions are based on a common goal of developing socialist undertakings.

The aims of competition differ. Capitalist competition is carried out for the purpose of making maximum private profits. The aim of socialist competition is also shown in profits, but the ultimate aim of seeking profits is to develop social productivity and on this basis to improve people's material and culture lives.

The methods of competition differ. In capitalist competition, people resort to every means, including fraud, deception, tricks and creating scandals. But socialist competition can only be carried out under socialist principles. All enterprises can strengthen their competitive position only through improving management, carrying out technical renovations and improving labor productivity.

Restrictions in competition differ. In any social system, competition is restricted to some extent. Capitalist competition is mainly restricted by monopoly capital. Socialist competition is mainly restricted by state planning and the spheres of commodities (such as labor force and land that are not considered as commodities).

The results of competition differ. In capitalist competition, some people will win and become rich while some others will fail, go bankrupt and even lose their lives, only to enhance the contradictions of capitalist society. In socialist competition, the winners will get more economic interest but none will become rich immediately. Some enterprises will consequently be eliminated in socialist competition, but the staff of such enterprises will be taken care of properly. Socialist competition will result in higher social productivity and in developing the socialist economy.

It is because of capitalist ownership that capitalist competition is anarchic. In our country, competition is related with state planning because of the socialist public ownership. Competition in our country is carried out under unified state planning to avoid anarchy in production and market and to overcome the negative role of the competition itself.

How To Protect Competition

Under the current management system, our enterprises still do not have enough necessary autonomy, therefore competition is still restricted in many aspects. For example, in some places, markets are blockaded and no products from other places are allowed to enter; the relations of supply and marketing are forcibly formed and prices are forcibly fixed. Therefore, various measures must be taken to open up the way for competition. The measures that merit consideration are as follows:

The autonomy of enterprises must still be expanded. Competition can be motivated only when enterprises have necessary autonomy and business achievements are linked with economic interest. At present, enterprises only have very limited management autonomy and this is not helpful in launching competition. There are only a few enterprises that are experimenting on profits retention while the autonomy of most enterprises is yet to be expanded. The enterprises that are conducting experiments also have very limited autonomy in many aspects. The State Council has decided that beginning next year, all state enterprises will have their autonomy expanded through profits retention. The enterprises that are conducting experiments must have their autonomy in more aspects such as independent accounting, paying tax to the state and responsibility for their own profits and losses. This is a natural trend in the development of profits retention. Thus with these measures, enterprises will be in a position to distribute their income and to be responsible for profits and losses after they have paid various taxes and debts, including loans and the interest on them. These conditions are in fact the premise for launching competition.

Link various channels of circulation of products so as to open up markets for competition. One region may sell the commodities from or set up sales organizations in other regions and this is applicable to rural areas and urban areas. Commercial and goods enterprises may selectively purchase goods from various wholesale points or from producing areas. Factories may be combined with shops to engage in both wholesale and retail business. Goods circulation must be improved and the number of links must be lessened in number. Those production units that can directly sell their products to buyers must be allowed to do so without having to go through the various links of commercial and goods departments. The amount of the goods that are distributed through planning must be gradually reduced so that more means of production will enter the market as commodities. In line with the principle of "selecting the best, competition and integration," enterprises must be allowed to break through the limit of regions and trades and sell their products and select and purchase raw materials and equipment in other regions. More production means service companies and goods and materials sales points must be set up. More markets for displaying and selling the means of livelihood and the means of production as well as trading points must be set up so as to gradually set up various trading centers as markets for competition.

Prices for some commodities may be floated. The current management over prices is too centralized with too much unified pricing and stringent control. Thus with stringent control and unified prices it is impossible for advanced enterprises to lower prices once they decide to do so. On the other hand, backward enterprises with high production costs may take advantage of this pricing method to wrest market and raw materials from advanced enterprises that will consequently not only be unable to fully display their initiative but will also even be forced to reduce their production. It is impossible to develop competition under such situations in which price changes are prohibited. The nature of competition shows itself in quality, varieties and services and ultimately in prices. Too stringent control over prices is not in the interest of developing competition. The prices of the products with high quality and those which

are exceeding demand as well as the prices of inventory goods must be allowed to fluctuate down. The products that are marketed by enterprises themselves without unified pricing by the state must be allowed to be sold according to their quality as a method of floating prices in the interior of developing competition. In principle, it can be defined that prices are allowed to drop but not to increase and the principle of less profits with more sales must be followed. This method is beneficial to customers, enterprises and the state.

Oppose blockade and monopoly. No regions and departments are allowed to blockade markets and prevent commodities from circulating normally. Any move to prevent the purchase of goods from other places on the pretext of protecting local industries is in a fact more to protect what is backward. Competition must be allowed within various economic elements and among various other elements; no monopoly is allowed. At the same time, both collective undertakings and individual undertakings must be respected.

Experiences of capitalist enterprises in setting up profits centers within a company merit studying. Lenin said that capitalist monopoly gives rise to stagnancy and decadence. In order to avoid such defects, capitalist enterprises strive to maintain competition within a company. A company may set up various business divisions as relatively independent profits centers. Such method of competition is also maintained within a group of companies.

Promote the system of economic contract. All contracts must be stringent and they must be protected by laws. Those who breached contracts must bear economic responsibility. Some projects that can be contracted are allowed to be carried out through bidding.

Encourage the advanced and support the backward. The vital economic role must be fully displayed in competition. Raw materials, fuel and electricity must first of all be delivered to those enterprises that are producing quality products with less consumption and lower costs. Bank credits must also be offered to the enterprises that are doing well. With regard to backward enterprises, the departments concerned must help them solve their problems so that they can make progress. The enterprises that are to be eliminated must be merged with other enterprises or directed to produce other products. But this work must be carried out along with economic readjustment.

Step up the work about market information. All management departments at various levels and enterprises must often investigate market demand so that they will be able to estimate market situations and improve their planning to avoid indiscriminate production.

Strengthen economic laws and regulations. In order to guarantee that competition is carried out normally and for the purpose of handling economic disputes, it is necessary to strengthen the work of legislation and administration of justice. All enterprises must observe state laws and resort to legal method in competition. They must develop their own prestige and follow business morality. Any fraud and other activities that violate laws and harm the state's and people's interests must be punished economically and legally.

The Questions That Are Yet To Be Resolved

In order to guarantee that competition is carried out healthily, it is necessary to study and solve new problems.

The question of economic confidentiality. In the past, enterprises were eating out of the same big rice bowl. As a result, they did not care about profits and losses and neither did they care about the publicizing of technologies. Now as enterprises are carrying out economic accounting, profits and losses are now very important. Therefore, they are reluctant to have their technology made available to the public, but by so doing they are labeled by people as carrying out "technical blockade." Economic methods must be used in solving the problems of technical exchanges that are carried out after competition. It is also necessary to study and formulate the laws and regulations about transfer of technology and patents so that transfer of technology is compensated. The reason for such compensation is that the technical developments are innovated after study that required money and labor. The results of study cannot be possessed by others without developer being compensated. One way is for the state to purchase a patent so that other enterprises can use it, another way is a patent may be purchased by awards from technical and scientific achievements. In short, laws and regulations must be formulated to promote technical inventions and popularize new technology.

The question of prices. The current pricing system is far from being rational in many aspects and restricts the launching of competition. It is, therefore, necessary to study how, according to the need of launching competition, to readjust the system gradually and in a planned way. Enterprises must be allowed to lower prices themselves, but such an act will cause the financial departments to worry that their income may drop. This problem can be solved by levying income tax instead of handing profits over to higher authorities. Some enterprises of the same trade with a weaker competitive position also oppose lowering prices. It still remains a question of how to help such enterprises improve their competitive position.

The questions of differences between economically backward regions and advanced regions. As the economic situations of these two types of regions differ so much from each other, the conditions for their competition also differ from each other. A country may implement a policy of tariff barrier to protect its industry against other countries. But it warrants consideration whether to implement a protectionist policy within a country. Some regions in our country now have taken measures to blockade their markets. Such measures not only restrict competition but are also not in the interest of developing national economy and their own economy. To blockade markets is in fact a measure to protect the weakpoints and disadvantages of the locality itself and not to protect its advantages. Quite a number of the economists in capitalist countries now no longer agree that instituting the protectionist policy of blockading market and increasing tariff is an effective measure. The formation of Common Market in Western Europe was a measure to break down blockades. To blockade the market as a way of solving the contradictions

between the backward and the advanced regions is not a clever move. One way to solve the differences between these two types of regions is to study how to help the backward regions develop their advantages. Measures may also be taken to integrate the two types of the regions in various forms so that on the basis of mutual interest the backward regions will be able to develop their economy. Another way is for the state to render financial support to backward regions. In fact, the state has paid attention to this problem and it has consequently formed a fund to support such regions.

The question of our enterprises taking part in international competition. Following the development of competition, various provinces and some of major enterprises have already had their autonomy in foreign trade and their competition has been expanded to international market. For the interest of competition in international market, it is necessary to change the situations in which foreign trade is undertaken by a single department with too much centralization and too stringent control. We must persist in unity and integrity in foreign trade so that we will not be taken in by foreign businessmen so that our fraternal units will not suffer losses. But how to do this well is still to be studied.

(III)

The Relations Between Integration and Competition

The natural trend of restructuring our economic management system is integration and at the same time competition. The emergence of integration and competition is only natural because it is the need and result of managing the economy through economic methods. In order to manage the economy through economic methods we must carry out integration and launch competition. In restructuring our economic management system, we must separate enterprises from government so that they will have more autonomy and to a certain extent, an independent economic interest. With high centralization by the party Central Committee replaced by separate autonomy of the party Central Committee and localities, the localities will have more economic autonomy. With highly centralized state planning replaced by integration of planning adjustment with market adjustment there will appear a possibility for competition. Thus with more autonomy, enterprises and localities will have independent economic interests and consequently they will demand to be able to display their advantages and carry out integration of various forms. Further development in restructuring economic management system will naturally further develop integration and competition.

The integration and competition under socialism are complementary and they promote each other. A comparison between socialist integration and competition and capitalism serves to explain this question. First, capitalist competition gives rise to monopoly and anarchism while socialist competition promotes integration to prevent monopoly and anarchism. Second, capitalist monopoly restricts competition while socialist integration encourages competition. Third, capitalist competition and monopoly are related to private ownership and anarchic production but socialist competition and integration are related

to public ownership and planned guidance. Fourth, capitalist competition and monopoly enhance contradictions of capitalist society while socialist competition and integration improve the relations of production and promote productivity.

But it must be pointed out that some experiences of capitalist countries in handling integration and competition merit our studying. For example, they encourage integration of medium and small enterprises, restrict the merging of some big enterprises and launch competition within a company.

When we are absorbing local experiences and those of other countries, in handling the questions of integration and competition, integrated organizations must in no way monopolize the relations with foreign countries. Therefore, there must be a number of integrated companies. With regard to internal relations, we must oppose the trend of centralized autonomy. Small enterprises must not be deprived of their autonomy neither should their autonomy be lessened just because of integration. On the contrary, integration must be carried out on the basis that enterprises must have their autonomy expanded. Integration is an objective need in the development of economy. Integration cannot be forcibly carried out when it is not demanded by enterprises.

An all-round implementation of the principles of "displaying advantages, protecting competition and promoting integration" is in the interest of readjusting the national economy, improving economic structure and further restructuring economic management system so that we will be able to use more economic methods in restructuring the present economic system. It is also in the interest of improving economic achievements, enhancing economic development, improving people's lives and meeting people's various demands. In short, further implementation of this principle will greatly boost our socialist economy to promote the realization of the four modernizations.

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NATIONAL POLICY AND ISSUES

REFORM OF CIRCULATION SYSTEM DISCUSSED

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[Economic commentary by Shang Ting [1424 1656] and Zhong He [6988 0735]:
"Viewing the Importance of Circulation System Reform From the Development
of Market Situation"]

[Text] Since the party's third plenary session, we have adopted a policy of national economic readjustment, reform, consolidation and development, have implemented the principle of regulation by planning together with regulation by the market, and under the guidance of state planning, have developed the strong points of each locality with competition being protected and business associations promoted. Consequently, the national economy has become more lively, and both city and county markets have been able to prosper, which manifests itself primarily in the following areas:

1. The supply situation of nonstaple foodstuffs has improved markedly. In 1979, the sale of major nonstaple foodstuffs was above that of the previous year with the sale of pork up 17 percent, eggs 54.5 percent, sugar 9.3 percent, liquor 15 percent, and different increases were registered for candies and fruits, pastry, cold drinks and snacks. The situation continues to improve this year. Owing to the abundant supply of pork, which increased 13.6 percent in the first 6 months of this year over the same period of last year, purchases are unrestricted and the price has been reduced three times. Since the introduction of an unrestricted supply of pork, the development of the catering industry, pastry industry and other light industries, such as leather products and soap, has increased.
2. The sale of manufactured products has increased sharply. In 1979, the sale of wearing-apparel increased 21.8 percent over the previous year. Daily necessities were up 19.1 percent, cultural and educational products 31.3 percent, chemical fiber cloth and polyester fiber cloth over 50 percent, wristwatches 40 percent, cotton jersey and pants, leather shoes, washing powder and sewing machines over 20 percent, bicycles and radios 18 percent, TV sets and tape recorders 2 to 3 times. In the first 6 months of this year, the sale of manufactured products continued to increase sharply with wearing-apparel up 28.3 percent over the same period of last year and commodities 26 percent. The whole line of textile products together with

handicraft products have increased in quantity as well as improved in quality. Moreover, there are new products with new colors. In the process of test-marketing and boosting sales volume, various kinds of stylish, highly marketable new products are constantly being put on the market, which have proved to be very popular with the masses. Both high-quality and medium-quality cosmetics, gifts and decorative products have become highly marketable products.

3. Great development was seen in the catering and service industries. In 1979, there were 72,000 food establishments in the state catering network, and total business done was 5.61 billion yuan, which was up 16 percent over the previous year. The number of newly established collective and individual food establishments is close to the number of state-owned ones. The long-existing difficult situation of finding hotel rooms, restaurants and tailor shops has gradually been changed. The good old traditions such as famous dishes, delicate food and various provincial foods are now making a comeback. The development of catering and service industries are playing a more important role in enriching as well as in enlivening the market.

4. The market has become more lively as result of conducting businesses flexibly using various forms. Many state commercial, catering and service establishments in various areas are working on correcting past inflexible ways of conducting businesses and overcoming bureaucracy through such new practices as mobile shops, door-to-door service, advance booking of restaurant tables, extending business hours, morning and evening markets and others. Collective and individual commercial, catering and service establishments are able to make full use of the advantage of being flexible. They can open early and close late, set up stalls, and peddle in the streets. The hawkers' cry in the streets, which has not been heard for many years, can be heard more and more, and services, such as repairing furniture, fluffing cotton, sharpening knives and scissors, and others are also gradually making a comeback. The agricultural trade markets in large cities and medium-size cities are making up for the shortage of agricultural nonstaple products in the state commercial establishments, and trading is active and business prosperous. In short, business is conducted using various forms in a flexible manner. Markets are no longer inactive, and the people's livelihood is improved.

The market is a total reflection of a country's national economy. The prosperity seen in the present market fully reflects the good economic effects achieved in the readjustment of our national economy and the great success attained in the initial reform of our economic management system and commodity circulation system. The development of a commodity economy demands a broad market, and the commodity circulation system must be able to satisfy this demand. We think the commodity circulation system must be further reformed on the basis of its early success.

Develop a Multisector Economy

Generally speaking, the transformation of private ownership carried out in the fifties was successful. Later, problems developed as a result of work being done precipitously. Under the guiding thought of the higher the form of

ownership, the more advanced it is, we resorted to the measure of "sweeping everything aside" and stressed "poverty is the characteristic of the socialist transitional stage." The situation of commodity circulation was such that we placed restrictions on the cooperatives, and policies relating to them were only transitional. Individual businesses, catering and service industries together with country fairs were deemed as the tail of capitalism, and the tail had to be cut off. Moreover, our interpretation of the socialist state market being a market solely for state-owned businesses was one-sided. Consequently, the number of distribution channels was reduced and business was conducted using only one form. The number of business establishments was reduced from 1 million in 1957 to 219,000 in 1979, a reduction of 80 percent or so, which is bad for production and the people's livelihood.

At present, the problem has caused concern in various parts of the country which have begun the development of a multisector economy and the readjustment of the commercial structure. In 1979, the number of various types of collective businesses at levels higher than county cities and towns increased to 128,000, an 83-percent increase over the 1978 figure. Businesses such as those run by husband and wife, father and son, brother and sister and hawkers, are developing at a very fast pace. For instance, in the city of Shangyang, there were only 59 individual businesses in 1978, but they increased to 4,700 in 1979. Urban agricultural markets have been set up one after another in 208 cities throughout the country, and they increased to more than 2,200 in 1979. The development of collective and individual businesses and urban agricultural markets is playing a positive role in enlivening the market and improving people's livelihood. However, some of our comrades, being accustomed to monopolistic practices, are very worried that the development of and the competition from collective and individual businesses might reduce state business volume, thereby causing chaos in the market. Actually, their worry is unnecessary. As practice proves, under the conditions of public ownership being dominant in our socialist system, allowing a multisector economy and various forms of conducting business to exist is favorable to the development of our economy. If we can only strengthen the leadership and manage our work well, the market will not become chaotic. On the contrary, we will be able to boost the development of commodity production, improve the people's livelihood, enliven the market, impel state businesses to improve business management through competition, and increase economic results.

Adopt Various Forms in Purchasing and Marketing

For many years, we had a system of state monopoly for purchasing and marketing of industrial products. It played an important role in the transformation of private ownership. Originally, after the transformation of private ownership was basically completed, it should have been adjusted according to the changing conditions. However, at a time when imbalance appeared in the national economy, the development of commodity production was slowed down and market supply was insufficient over an extended period of time and the scope of state monopolized marketing was widening day by day. The categories of products under state enterprises' planning and management at the state level, increased from 98 in 1957 to 131. Moreover, they also increased at various levels of planning. Consequently, the direct relationship between producers and consumers was severely affected.

As a matter of fact, both commerce and industry suffered as a result of state monopolized marketing. Therefore, it was necessary to carry out a reform. State monopolized marketing of manufactured products was initially reformed last year, when the Ministry of Commerce reduced the number of commodities under its planning and management, thereby increasing the number of suppliers, and the development of direct links between production and marketing, that is, industrial self-marketing. The Ministry of Commerce has recently decided to greatly reduce the number of planned commodities starting next year and at the same time abolish state monopolized marketing of manufactured products. The planned commodities and the unplanned commodities will be treated separately according to four forms of purchasing and marketing, which are: state purchasing and marketing and state purchasing and distribution, planned purchasing, purchasing based on orders and selected purchasing.

Once the number of planned commodities has been reduced, we should tighten our grip on planning and management while maintaining the seriousness of state planning. Under the guidance of state planning, the formation of a commodity circulation system should be based on a system of commodities of the same line. No business establishment should attempt to disrupt or undermine the implementation of state planning. Manufactured products of the same kind should be priced uniformly in a single city, and the industrial planned products can neither be purchased nor marketed through negotiated deals so that the principal role of planned commodities in stabilizing the market and prices can be secured. When state monopolized marketing is abolished, we should, at the same time, institute a contract system and perfect it, and strictly abide by the contract.

Reduce the Links in Commodity Circulation

A commodity has to go through a circulatory process of continuous exchange from production to final consumption. In this process, the number of links in the commodity circulation and whether or not they are economical, can directly affect production and consumption. In the past, when supply was insufficient, the setting up of wholesale shops was carried out according to administrative divisions. As a result, the links increased, more capital was held up, trade barriers were set up with each locality hiding itself as in a fortress, and the flow of commodities was not smooth. Thus, the naturally formed economic relationships were destroyed.

The key to invigorating the circulation of commodities lies in upholding the principle of organizing circulation of commodities according to economic divisions, making adjustments in wholesale shops, reducing the links, clearing up the circulatory channels, and restoring the economic relationships between various districts and between various enterprises. At present, the following reforms have to be carried out first: 1) The present number of 11,849 county and municipal wholesale shops cannot meet the demands of the changes in commercial structure and the circulation of commodities. Wholesale shops engaging in both wholesale and retail businesses should be increased in order to meet new conditions. Both wholesale and retail shops should be allowed to make purchases from other places, establish direct link with

factories and make purchases of industrial self-marketed products or make purchases of planned products through the fixing of production quotas by the wholesale shops themselves. By so doing, trade barriers in various districts can be broken down, the circulatory links reduced, operation expenses cut down, and economic effects increased, to name but a few advantages. 2) The present number of provincial purchasing and supply agencies is 1,063. After planned products have been greatly cut down and the restrictions on wholesale and retail shops making purchases from other places lifted, some of those agencies, which were not set up in accordance with the principle of circulating commodities according to economic divisions, will be gradually shut down while others will be amalgamated. We will carry out "amalgamation between purchasing agencies and wholesale shops, specialization of a higher degree, profit calculation in percentages, and guarantee of allocation and transfer of goods." 3) Various forms of conducting business will be developed. In both large and medium-size cities, we will set up small wholesale commodity markets or small commodity exchanges, hold trade fairs and exhibitions, set up business trust companies and perfect them, and widely develop such businesses as purchasing through agents, selling on a commission basis, mail-order, storage service, shipping service and distribution. In order to develop the role of an economic center, "trade centers" for facilitating the flow of commodities and promoting free purchasing of goods should gradually be built in such cities as Shanghai, Tianjin, Shenyang, Chongqing, Wuhan, Guangzhou and Si'an. Another consideration is that when approved, a retail shop selling durable consumer goods should be given some flexibility in the way it receives payments and delivers goods. Some should be allowed to deliver goods in advance and receive payments later by installment, while others receive payments in advance and deliver goods later at a fixed date. Areas related to the above-mentioned reforms include setting up a national business information system, making better market forecasts, increasing business information exchange, and developing the regulatory role of the market.

Expanding the Rights of Enterprise Self-Management

Enterprises are the base of our economic structure. They should be managed using economic methods. In the past, they were managed through high-level orders and by the party secretary. No attention was paid to economic accounting and economic effects and working incentives, initiative and creativity had not been fully developed. Moreover, business was not conducted in accordance with objective economic laws. All of this must be changed, and enterprises must be given certain rights of self-management.

In expanding the rights of enterprise self-management, we believe that the main areas should be: financial rights, planning rights, pricing rights and personnel management rights. In expanding financial rights, we should, on the basis of retaining profits, continue the practice of paying tax on profits instead of turning them over to the state, and increase enterprises' production development funds and workers' welfare funds. Therefore, enterprises will be in a position to make face-lifting changes on the strength of their own accumulation. In expanding planning rights, we should enable enterprises to make independent decisions about development and business plans in the light

of their own existing conditions and business scope. Moreover, the practice of high-level authorities giving work, which has no bearing on the practical situation, is to be done away with. In expanding pricing rights with the implementation of state pricing policy as a prerequisite, conditions must be met before enterprises are gradually given certain rights to set and adjust prices, thus enabling them to use properly the law of value. Moreover, the regulatory role of the market will be developed and businesses enlivened. Expanding personnel management rights enables enterprises, based on state-approved quotas for workers, to select or to discharge workers when necessary, thus reversing the situation of rigid assignment of work. In short, enterprises should be made relatively independent economic units and business conducted in accordance with objective economic laws. Furthermore, concepts relating to business operations, the market, service and competition should be strengthened, enterprises and workers' initiative enhanced, and standards of enterprise management constantly raised.

As for enterprise management, a complete set of rules and regulations should be set up. Based on investigation and research, the Ministry of Commerce has drafted "Rules on State Commercial Retail Enterprise Management—daily necessities and manufactured goods" and "Rules on State Commercial Wholesale Enterprise Management at the third level," in which we find rules governing the expansion of rights of enterprise self-management and the institution of a democratic management system. Therefore, the experiment of expanding rights of self-management and the experiment of implementing the rules governing management should be jointly carried out.

At the third meeting of the Fifth National People's Congress, Comrade Hua Guofeng, when speaking of carrying on the reform of the economic management system, pointed out: "The general orientation of the reform of our economic management system is to reverse the overly centralized (at both the central and the local levels) management system, expand the rights of enterprise self-management and those of workers' participation in management, replace regulation by planning with both regulation by planning and regulation by the market, and replace administrative organs managing the economy with administrative methods by economic organizations managing the economy with economic methods and business laws. The circulation system reform must adhere to this general orientation and be resolutely carried out. We should be bold enough to make innovations while acting with caution. On the basis of the initial reform, we should have a comprehensive plan and carry out further reforms. Furthermore, we should set up a commodity circulation system which includes such features as multisector economy, various forms of conducting business, various forms of associations, increased number of circulation channels but fewer links. We are sure that by following the economic system which includes further reform of the circulation system, both industrial and agricultural production will develop rapidly, the living standard will be further raised and the market will become more prosperous."

FINANCE AND BANKING

'GONGREN RIBAO' COMMENTATOR REPORTS ON TAX EVASION

HK221259 Beijing GONGREN RIBAO in Chinese 2 Dec 80 p 1

[Commentator's article: "Strengthen the Concept of Taking the Whole Situation Into Account and Safeguard Financial and Economic Discipline"]

[Text] Some leaders of the Sichuan No 1 Cotton Textile Dyeing Plant transferred to their plant the taxes that should have been submitted to the state by overstating the plant's production costs and by reducing actual profit figures. This is an illegal act which transfers the property of a large collective to a small one. It impairs national interests and should be strictly prohibited, whatever the motive is.

At present, there are some enterprises in various localities selected to take part in the experiment of "practicing independent accounting, paying taxes to the state and assuming sole responsibility for their profits or losses." This is an important aspect of China's economic reform, and it constitutes a major reform in the financial management system of enterprises. The selected units now pay taxes on profits instead of handing their profits over to the state. In essence, this changes the relations between the state and the enterprises in the distribution of income. It expands more fully the financial power of enterprises, further demonstrates the principle of material incentives, takes into account the benefits of the state, enterprises and individuals and implements the principle of distribution according to work. In this way, it mobilizes the initiative of workers and enterprises and creates a favorable condition for enlivening the economy and promoting the development of productivity. For instance, in the five Sichuan enterprises which are trying out this new method, the total output value in the first 7 months of this year registered an increase of 48.8 percent over the corresponding period last year; profits went up by 82.7 percent; the revenues they turned over to the higher authorities increased by 48.3 percent; the profit retained by the enterprises was more than doubled. Facts have adequately proven the advantages of this reform.

However, everything tends to divide into two. As their financial power is expanded, the enterprises selected to carry out this reform must guard against the influence of bourgeois management ideology so that they will be able to handle properly the relationship among the state, enterprises and

workers, instead of practicing fraud, transferring the property of the large collective to a small one and impairing national interests. For example, some people hold the view that: "Although they breached the financial and economic discipline, they did not put the money into their own pockets." This is an excuse for breach of financial and economic discipline. Others hold that: "The state is so big and rich. What are such small amounts of taxes to it?" They always place national interests in the secondary position and try all possible means to keep more for themselves. Do they not know that "tiny streams can converge into large rivers?" If everyone "puts his personal interests above everything else," delays tax payments or evades taxes, where can the state obtain its funds for construction? Will the four modernizations, which the people have been longing for, not end in failure? Leaders of enterprises must take into account to a greater extent the interests of the state and the people, particularly when the state is still in temporary financial difficulty. Acts that embezzle public revenue will adversely affect socialist economic construction and should be firmly opposed. We must understand that the state has given due consideration to the interests of the enterprises which are selected to try out the economic reform. To earn more profits, the enterprises should try to improve their management, reduce their production costs, tap their own potential, increase production and practice economy rather than attempt to encroach on the interests of the state and the people.

The state's tax policy was formulated in accordance with the party's economic policy. It is one of the important levers to develop the socialist economy and is an important part of the socialist legal system. Like other decrees and stipulations, our tax policy has clearcut legal effects. All localities and units should implement this policy strictly and should not follow their own ways. They should not allow a statement made by a particular person to arbitrarily change the state regulations nor should they "take whatever they need" and "do whatever is profitable" to them. They must realize that paying taxes according to law is a serious and obligatory duty of the enterprises. Tax departments at various levels and the broad masses of workers should strengthen their supervision of the finances of the enterprises and safeguard the law and discipline on taxation. Our workers are the masters of the enterprises and the state. They must strengthen the concept of taking the whole situation into account and properly handle the relationship among the state, enterprises and individuals. They must voluntarily take accumulating funds for the state as their glorious task. Moreover, they should supervise leaders of enterprises to correctly implement the tax policy of the state and to punctually pay the taxes in full so as to insure the supply of funds for the four modernizations. They must keep the public interest in mind, boldly reveal and struggle against the illegal acts of the small numbers of leaders who disregard state interests and deliberately evade or refuse to pay taxes, and enthusiastically safeguard national interests.

FINANCE AND BANKING

PROS, CONS OF LOTTERY SAVINGS SYSTEM DISCUSSED

Cons Outnumber Pros

Beijing ZHONGGUO JINRONG [CHINA'S FINANCE] in Chinese No 8, Aug 80 p 38

[Forum article by Mo Wenqi [8010 2429 0796]: "Lottery Savings System Has More Cons Than Pros"]

[Text] Recently, people and bank workers in some areas have discussed the question of introducing the lottery saving system. I would like to offer my views.

Lottery savings means the payment of interests by the bank on savings deposits in the form of prizes to the winners only but not to all depositors. In the 1950's, Beijing Municipality on different occasions used this system in six different forms, including "fixed lottery savings with guaranteed capital and value for one-time deposit and one-time withdrawal"; "fixed lottery savings with one-time deposit and one-time withdrawal"; "fixed lottery savings"; "lottery savings with current deposits and one-time withdrawal"; and "current lottery savings."

I am a veteran on the savings front and still have vivid memories of these experiences. At that time, when the drawing of prizes took place every month, we had to invite representatives of various circles and the broad masses to the great hall of a theater to supervise the drawing. There was also entertainment, such as opera, movie or other cultural performances, after the drawing. The winning numbers were promptly publicized through newspapers, radio, leaflets and other media throughout the city. This type of savings involved a lot of fanfare, but why was it discontinued? To my knowledge based on practical experiences, there are pros and cons for this type of savings, but the pros are less than the cons.

There are two pros:

First, it simplified savings procedures. No interest is calculated at the time of withdrawal and this helps raise work efficiency and save the depositor's waiting time. Second, convenience to the depositor. After making a deposit, he can withdraw it at the time of maturity at any savings department in town (except for the current lottery savings).

There are generally five cons:

First, the chance to win is very slim, and people tend to rely on luck. In this type of savings, the value of the prizes serves as an attraction for depositors.

The higher the value, the greater the attraction will be, and the less the chance of winning. For example, in the "fixed lottery savings with one-time deposit and one-time withdrawal" once used in our municipality, 100,000 accounts were organized for one drawing, offering one first prize of 500 yuan, four second prizes of 50 yuan each; 20 third prizes of 25 yuan each, 200 fourth prizes of 5 yuan and 2,000 consolation prizes of 1 yuan each. The total prize fund paid by the bank is generally the same as the total amount of accrued interest. Through this arrangement by the state banks, the accrued interests of 100,000 savings accounts were used to pay a very small number of people. Some people making their deposits said: "Let us join it and try our luck. Just imagine what will happen if I win the first prize by a one-in-10,000 chance." In fact, the chance was less than one in 10,000; it was one in 100,000. This system naturally encourages people to try their luck and cultivates egoism.

Secondly, since the participants are motivated by curiosity and the desire to win, they give little or no consideration to supporting national construction, fostering the habit of diligence and frugality, planning their livelihood and setting aside something for the future. Therefore, they will become dejected after several unsuccessful ventures. Although banks have tried the lottery savings system for more than 10 years, the ratio of deposits from this source to the total savings deposits has never been high. Let us take for example the lottery current savings of the Beijing Municipal Bank. In 1956, these deposits amounted to 12.5 percent of the total savings deposits; in 1957, 13.1 percent; in 1958, 8.7 percent; and in 1959, 12.3 percent. In the 3 years prior to the introduction of the lottery current savings system (1953-1955), the average amount of interest-bearing current savings amounted to 22.2 percent of the total savings deposits. After the introduction of the lottery current savings system, it dropped to an average of 12.5 percent. From this, we can see that the increased portion of lottery current savings is about the same as the decreased portion of interest-bearing current savings, the only difference being in the types of savings. Experience has proved that this method cannot be conducive to increased savings.

Thirdly, some people participating in the lottery fixed savings are so disappointed by their failure at the first drawing that they cannot afford to wait until the maturity date and transfer their savings to others at a discount. In this case, savings would become meaningless.

Fourthly, all types of lottery fixed savings do not take into account the depositors' identities and no measures are provided as a precaution against the loss of the savings certificates. If these certificates are lost or stolen, there is no way of tracing them, and the banks cannot protect the interests of the depositors.

Fifthly, at the time of the prize-drawing, a theater has to be rented and actors hired in addition to people being invited to act as supervisors. All this means a lot of work and expense for the bank.

Based on my experience in this type of savings over many years, I am of the opinion that the system of lottery savings should not be restored since its cons are more than its pros.

Arguments For Restoring System

Beijing ZHONGGUO JINRONG [CHINA'S FINANCE] in Chinese No 8, Aug 80 p 39

[Article by Lu Tian [7627 3944]: "Lottery Savings System Can Be Tried"]

[Text] In recent years, some people hope to see the return of the lottery savings system and some local banks are now studying this matter. There are divergent views as to the pros and cons of this system. I am in favor of it for the following reasons.

1. The lottery savings system can effectively arouse people's enthusiasm in saving and encourage the practice of economy in order to accumulate more construction funds for the "four modernizations." As we all know, savings with current deposits and one-time withdrawal has strong public support and is much welcomed by the masses. Although the present wage level in our country is low, it is still possible for workers in general to save 10 or 8 yuan every month. If a worker deposits 5 yuan every month, he will accumulate 60 yuan a year. For common workers, a monthly saving of 5 yuan does not lower his standard of living, but an annual accumulation of 60 yuan can help him a lot. This is the advantage of saving with current deposits and one-time withdrawal. The annual accumulation of 60 yuan carries with it an accrued interest of 1.44 yuan. An income of slightly over 1 yuan cannot do much to improve the worker's living conditions. Therefore, the main attraction of savings with current deposits and one-time withdrawal does not come from the interest earned, but rather from its contribution to the four modernizations. The so-called lottery savings system with current deposits and one-time withdrawal means that all or a portion of the interests, which should go to all depositors, are pooled and used as prizes to be distributed to a small number of winners. Supposing a monthly deposit of 5 yuan is made for 1 year and there are 100,000 accounts, the total accrued interests will come to 144,000 yuan. If there are 40 first prizes of 500 yuan each, 120 second prizes of 200 yuan each, and 10,000 third prizes of 10 yuan each, the winner of a first prize can buy a TV set; the winner of a second prize can buy a fairly good watch or a fairly good bicycle; and even the winner of a third prize can buy a new suit. According to the above calculation, 10.16 percent of the depositors, or one among every 10 of them, can win. Those who do not win can still accumulate their savings, but the winners, besides accumulating their savings, can still get prizes which are worth many times their interests and with which they can buy more equipment and improve their living conditions. Therefore, the lottery saving system is more attractive than an ordinary savings system. Some comrades worry that the lottery savings system can have only a temporary but not a long-term attraction. I don't think so. It is possible that some depositors failing to win at several successive drawings may discontinue his saving deposit. However, failure to win at one drawing does not mean that he can never win. Therefore, for the vast majority of people, its attraction should last a long time.

2. Instead of producing any passive effects, the lottery savings system raises people's hopes and arouses their interests. Without these effects, the system will be unnecessary. While raising hopes and arousing interests in some ways, will it produce passive effects in other ways under conditions of socialism?

Generally, the answer is no. We should have faith in the gradual rise of people's socialist consciousness. While their participation in the lottery savings system is associated with the hope to win prizes, they also have the intention of supporting the four modernizations. It would be difficult to imagine that their participation in this system will breed bourgeois ideas. Winners of first prizes can get only 500 yuan each which cannot materially alter their economic standing.

3. The lottery savings system does not by any means deviate from the principle of saving. If a portion of the interests is changed into prizes, does it violate the principle of paying interests on savings deposits? I don't think so. On the whole, the amount paid by the bank as interest is the same as the amount of prizes, although for the individual depositors, the situation is different. It is true that the winners get far more than their normal interest, while those who do not win cannot get their normal interest. But the depositors have been mentally prepared for this eventuality. Some comrades also worry that the system of lottery savings will cause "mass transfers of accounts." This worry is unnecessary. As far as the state is concerned, all savings systems are the same. If the lottery system of savings is introduced, the ordinary system should still be maintained. Probably the number of accounts under the ordinary system will be reduced after the introduction of the lottery system, but, as far as the bank is concerned, this is only a change in the forms of saving and the aggregate amount of deposits is likely to increase. This will be a greater contribution to the state's construction funds. Based on the abovementioned factors, I favor the restoration of the lottery savings system.

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FINANCE AND BANKING

EXPERIMENTS ON RESTRUCTURING BANKING SYSTEM SHOW GOOD RESULTS

Beijing ZHONGGUO JINRONG [CHINA'S FINANCE] in Chinese No 8, Aug 80 pp 5-7

[Article by Sichuan Provincial Branch of People's China Bank: "Several Points Concerning the Restructuring of the Banking System"]

[Text] To meet the requirements of national economic readjustment and the four modernizations, and in accordance with the resolutions adopted by the Sichuan Provincial Party Committee, experiments of expanded decision-making power have been carried out in 10 industrial and 40 commercial enterprises since 1979. Last January, thanks to the leadership and concern of the main office of the People's Bank of China, we also carried out experiments on restructuring the banking system. The Provincial Branch has submitted to the Provincial People's Government a "Report on Views Concerning the Experiment in Restructuring the Banking System," convened a provincial conference on banking, carefully studied the steps and methods for restructuring and set up various indices and tasks to be fulfilled. From the thoroughness and promptness of the various local banks in carrying out their work, we can see that the experiments in the past 6 months have begun to show good results.

Major Aspects of Restructuring

According to the plan approved by the Provincial Party Committee, the Provincial Government and the main office of the People's Bank of China, there are 10 major aspects in the restructuring of the banking system in our province.

- (1) "Unified planning, differential administration, coordinated deposits and loans and controlled balances" in credit planning and control.
- (2) Medium- and short-term loans to industrial and commercial enterprises for acquiring equipment.
- (3) Continued implementation of the principle of "discriminating treatment with preference to the most deserving ones" in the control of loans for circulating capital, and the use of the levers of credit and interests in encouraging the enterprises to tap potentials and in accelerating the turnover of funds.
- (4) Improvement of the methods of commercial loans by selecting several units among the third-level wholesale and retail enterprises in Chengdu and Chongqing for experiments in the control of deposits and loans under separate accounts.

- (5) Improvement of the method of closing accounts through the system of "collection agents in different places" throughout the province.
- (6) Improvement of cash control by appropriately increasing the unit's imprest funds, and permitting cash payments for the procurement of agricultural and sideline products in country fairs by enterprises and units according to established regulations.
- (7) Strengthening economic accounting in banking by setting up five economic criteria for assessments.
- (8) The system of retaining a portion of profits and the system of contracted responsibility for expenditure.
- (9) The system of rewards for bank workers and staff members and rewards according to work points.
- (10) Restructuring the cadre control system in banks.

Among these 10 aspects, the system of planning control, the extension of medium- and short-term loans for equipment, and economic accounting in banking are the key items. Fairly good results have been obtained after half a year's experiments as shown by the increase of deposits, the quicker turnover of credit funds, reduction of errors, increase of profits, lowering of expenditure and other improved banking functions.

Several Points Noted

For more than half a year, we have noted the following points in restructuring the banking system:

1. Repeated Stress on the Aim of Restructuring and Constant Efforts to Raise Ideological Awareness

Last March, when we held a provincial conference on the work of the People's Bank of China to discuss the problems of restructuring, we only thought of the concrete plans for improving the work and failed to anticipate the ideological problems involved. Soon after the conference began, disputes arose over the problem of indices, particularly the index of profits to be retained by the bank. In view of this, we organized the participants to discuss the aim of restructuring so that they could understand that the restructuring of the banking system is only a means, while its aim is to enliven the work of banking, to attain better economic results by spending less money, and to promote the development of the national economy more effectively. After discussion, the conference set up six criteria for evaluating the result of restructuring. They were: First, whether the accumulated funds total more than before; second, whether the use of funds is more flexible; third, whether the extension of loans can produce better economic results; fourth, whether experiences of success have been gained; fifth, whether control by the bank has been improved; and sixth, whether talents have been cultivated. On the basis of raising ideological awareness, the attention

of the conference was directed to the use of banking as a lever in gaining even better economic results. When the participants had a better orientation of their work, we went to inspect the lower levels. In several symposiums attended by the branch managers, we discovered that in organizing funds, they all liked to see a continual increase of deposits or even a monthly rise in the enterprises' deposit level regardless of the existing circumstances. In some cases, medium- or short-term equipment loans were completed in one payment instead of being paid by installments as required by the enterprises. These problems showed that in strengthening economic accounting and fulfilling the profit quota, whatever is gained will have a close bearing on the welfare projects of the basic level bank units and the personal benefits of the comrades whose bonus is calculated according to work points. We firmly carried out ideological work and education on the aim of restructuring so that the broad masses of workers and staff members could correctly understand the relationship between economic accounting and the implementation of policies, and properly handle the relationship between the bank and the enterprises, thus enabling the experiments to develop in the right direction.

2. Increased Authority for Bank Managers and a Greater Role for the Banks as a Whole

Under the system of overall control by the central authorities in the past, banks at different levels were controlled by direct chains of command leaving the bank managers little power or responsibility. Whenever questions of quota or rules and regulations arose, the sections or sub-sections concerned usually requested instructions from corresponding sections or sub-sections at a higher level, and it was difficult for the bank manager to handle any contradiction between different sections. The result was that only "individual spare parts" were used while the whole set of machinery was left idle, and it was very difficult to give play to the role of the bank as a whole unit. Now that restructuring is being carried out, the development of vocational work is linked with the interests of the units and the individual workers and staff members, while authority, responsibility and benefits are closely interrelated. It is therefore necessary that in external relations, problems should be considered from the standpoint of the bank as a whole, while, in internal relations, there should be closer cooperation among various sections. Thus in addition to using the "spare parts" well, the role of banks at various levels as "whole machines" should also be developed. Since the bank managers have now greater power and heavier responsibility, they are duty-bound to support the state's economic development as well as to take care of the personal interests of all workers and staff members in the bank. They said: "Although the responsibility is heavy, the work is easier. What we say now counts and we can give directions freely." From the bank managers we met, we could see they played their roles as they never did before.

3. A Better System of Reporting With a View to Enlisting Support From Party and Government Leadership as Well as Other Departments

After attending the provincial conference on banking, the banks at various levels first made detailed reports to the local party and government authorities and obtained their guidance and support for restructuring the banking system. Many prefectural and county leaders sent representatives to the bank conference, and

some of these leaders attended the conference and made speeches in support of the experiments. The prefectural leaders even presided over the meetings dealing with the extension of medium- or short-term equipment loans so that they could even up the loans for tapping potentials, and the renovation and transformation of equipment. The Mayor of Chongqing even brought the bank's cadres to the enterprises to carry out in-depth investigations on the way loans were used, and discovered that a thermos jar plant failed to complete a production line. He then studied the situation with the departments concerned and set a time limit for the production line to be completed. When the Sichuan People's Government had distributed the report containing the suggestions of the provincial branch banks concerning the experiments, the banks at various levels held internal meetings to discuss and implement these suggestions. Many of them even held meetings with the leaders of enterprises and the financial personnel, particularly pointing out the need to publicize the main aim, the ideas and contents of the restructuring and the impetus it would produce on the enterprises. Their action won the support of the enterprises and units.

4. Reforms in All Types of Work to Improve the Economic Results of Restructuring

Since adopting the method of "unified planning, differentiated administration, coordinated deposits and loans and controlled balances" in the system of credit planning and control, banks at various localities have completely changed the practice of being concerned with only individual savings deposits but not the collective deposits of enterprises and units. Under the unified leadership of the bank manager, all sections and sub-sections have pooled their resources in an overall disposition of funds. The credit department is now responsible for enterprise deposits and constantly keeping tracks of any change among the big depositors. The credit personnel visit the factories for not only arranging loans but also organizing deposits. They also study the changes in various types of deposits and supply periodical statistical tables. The savings departments attend to savings deposits as well as miscellaneous social deposits in small amounts, while the accounting departments are responsible for opening accounts for deposits and watching for any sign of change in the pattern of deposits and withdrawals. Some of these departments even set up a "warning line" system for deposits, and, in case of any significant change, will issue the warning signal to all sections concerned so that the cause can be determined and appropriate measures taken. In the first half of 1980, the total balance of various deposits increased by 260 million yuan over the amount at the beginning of the year. Compared with the same period of 1979, however, it was a drop of 280 million yuan. The difference of 540 million yuan between the rise and the fall changed the pattern in our province for many years according to which the total balance of deposits should decline in the first half of the year.

In extending medium- and short-term equipment loans, the branches of the People's Bank of China throughout the province in 1980 allocated 350 million for 982 projects, of which 72 percent belonged to the light and textile industries or related to other products in short supply. These projects took up 64 percent of the loans. Completed and commissioned, they will raise the output value by more than 1 billion yuan, increase profits by more than 200,000 yuan, and increase national revenue by more than 100 million yuan. They will also increase foreign

exchange earnings by several tens of millions of dollars. In order that the medium- and short-term equipment loans can produce full economic benefits, the provincial and the various local banks paid attention to the following four conditions in the extension of loans: (1) Firm adherence to the principle that these funds are mainly used for the old plants to tap their potentials and to renovate and transform their equipment instead of supplementing the funds for capital construction or extending the capital construction front; (2) Firm adherence to the principle of priority to those projects that require small outlays but yields quick and good returns, or bring large foreign exchange earnings, instead of extending loans indiscriminately; (3) The need for on-schedule redemption within 1 to 2 years, but not more than 3 years; and (4) Exercising the decision-making power of the banks in granting loans. Although other departments can request loans or suggest that loans be granted by the banks, the banks have the right to decide on granting or refusing to grant any loan, and to decide on the size and the duration of the loans. These conditions were supported by the leaders of the provincial party committee and the provincial government.

When the banks have strengthened economic accounting and internal control, it will be necessary to conduct periodical examinations of the five economic criteria, to control the disposition of funds, and to analyze the economic effects. Thus the bank managers must personally attend to their vocational jobs, and the workers and staff members must acquire higher vocational skill. At present, many bank managers are taking the lead in undergoing vocation training and no longer consider it an honor to be "laymen." Recently, we held a symposium of bank managers in nine counties and municipalities. Every one of them brought with him tables and charts and their reports on the situation were backed up by statistics. In studying problems, they now talked authoritatively. The manager of Jianyang County Branch said: "I have been a bank manager for 24 years, but I began to read reports every 10 days and every month in studying the money market and in analyzing the changes in the situation of funds only this year. I was 'forced' to do this by the restructuring." To better organize the disposition of funds, many county and municipal branches have formed special groups for this purpose and some of them even set up economic accounting groups with the bank manager in command, to be assisted by the chiefs of the planning, credit, savings and accounting sections. There are also special controllers and auditors conducting analyses and investigations every 10 days or every month, studying the sources of funds and the way they are used, paying prompt attention to current problems, and making use of funds at their discretion. They also examine the way in which the five criteria are fulfilled besides coordinating the work of various sections in carrying out their duties. All banks are now careful in calculation, strict in budgeting and meticulous in the practice of economy. Because of their attention to economic accounting and the strengthened internal control, the five economic criteria have been fairly successfully completed by the banks in various parts of the province. According to statistics by 12 banks in eight municipalities including Chongqing, Chengdu, Yibin and Leshan, the turnover rate of funds in the first half of 1980 was 2.67 times, being 0.12 times faster than that of the same period in 1979. The rate of accounting error was reduced by 40 percent; the rate of errors in payments was lowered by 51 percent; and the profits realized amounted to 103 million yuan, an increase of 17 percent as compared with the same period of 1979. The level of bank management has also been raised.

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ENERGY

PROTECTION OF COAL RESOURCES CONSIDERED NECESSARY

OW191347 Beijing XINHUA Domestic Service in Chinese 0703 GMT 19 Dec 80

[XINHUA reporter Cao Welong's letter: "It is Imperative To Draw up a Law To Protect Coal Resources"]

[Excerpts] Taiyuan, 19 Dec--This reporter recently visited coal departments in Shanxi Province and heard many engineers and technical personnel calling on concerned departments of the state to promptly draw up a law to protect coal resources and prohibit damage to coal resources and waste in production.

Shanxi is our country's important coal energy base. It has abundant coal deposits of all kinds scattered in various localities of the province. In 1979, total output of coal in Shanxi Province exceeded 100 million dun, accounting for one-sixth of the national output. Coal production continued to rise during the period from January to November this year with total output reaching 109 million dun.

However, in order to develop industry, a number of communes and production brigades in the province blindly opened up small coal pits on a large-scale without approval by departments concerned, in disregard for state policy on the development of coal resources. According to statistics released by the provincial people's government following a recent investigation, the total number of small coal pits run by commune and production brigades in this province now totals 3,256, representing an increase of more than 1,300 as compared with the number 2 years ago. Of those coal pits, more than 830 were opened without permission.

Many small coal pits are located within the boundary of state coal mines in a cluster and some are located near big mines. They contend each other for coal deposits and they have created many contradictions.

Shi Hongcai, coal mining engineer of the Shanxi Provincial Coal Industry Administration, pointed out: At present, the people's governments at various levels in the province are making efforts to consolidate small coal pits. They have issued orders repeatedly forbidding the opening of additional coal pits. However, many communes and production brigades still disobey orders and continue to open up small coal pits in a blind way and without permission.

He said: Now many countries in the world have formulated mining laws or regulations to protect coal resources and strictly prohibit damage to coal resources and waste in production. Our country has not formulated a mining law or a law to protect coal resources since national liberation. In order to strengthen legislation in the economic field and resolutely and effectively struggle against bad people, bad things and unhealthy tendencies which constitute damage and waste to coal resources, we must immediately draw up a mining law or a law to protect coal resources.

CSO: 4006

ENERGY

NATION'S PETROLEUM PRODUCTION PREDICTED TO DROP

HK301458 Hong Kong HSIN WAN PAO in Chinese 30 Dec 80 p 1

[Special dispatch by HSIN WAN PAO reporter from Beijing on 30 December: "Disrupting the Balance and Undermining the National Prestige: China's Petroleum Production Will Drop Consecutively for 7 Years. Output Will Drop by 5 Million Tons in 1981 and Fall Below the Output Level of 100 Million Tons in 1982; The Long-Term Agreement To Supply Japan Will Not Be Fulfilled; Equipment Blindly Imported Will Have To Be Sealed and Stored up While the Loans and Interest Will Have To Be Paid"]

[Text] Beijing, 30 Dec--Here is a piece of information that will disappoint 1 billion people for a short period of time: China's fanciful "petroleum take-off" has plummeted to the ground. According to an authority in Beijing, China's petroleum production will drop by at least 5 million tons next year. Production will further decrease in 1982 and the total output will be below 100 million tons. In addition, in the next 5 years to follow, petroleum production will continue to waver downward. China is rich in energy resources; however, we have not done enough work in the past regarding energy building and geological prospecting. Energy supply has lagged far behind the need of the whole economy; and about 30 percent of the country's production has failed to operate. As a matter of fact, petroleum geological prospecting work has failed to catch up because of excessive extraction. Hence, the peak of petroleum output will fall very quickly. We must wait until the development of the oilfields on the continental shelf along the coast is completed before there can be any improvement in the situation.

Shortly after the smashing of the "gang of four" in October 1976, the estimation of petroleum production was too optimistic. People thought that an output of 200 million tons could be very quickly attained and, therefore, a long-term trade agreement was signed with Japan to supply 15 million tons of petroleum in 1981 and 50 million tons by 1985. The agreement is now impossible to fulfill. Moreover, because of the estimation of a tremendous flow of petroleum, large amounts of chemical industrial equipment have been imported. Now that it has been discovered that there will be inadequate supply of crude oil, this equipment will have to be sealed and stored up. Nevertheless, the loans for that together with the interest will have to be paid.

Because of the excessive optimism regarding petroleum production, the extraction of coal has been slowed down. As a result, coal production will also fall next year.

Many large construction projects which consume a lot of petroleum have also been forced to be abandoned. Apart from financial reasons for which capital construction has to be cut down, some factories will also have to be closed to adapt to the energy supply situation.

The advocacy of building more than 10 daqings has impaired a balanced economic development, adversely affected the people's livelihood and undermined the nation's prestige.

CSO: 4006

ENERGY

BRIEFS

POWER SUPPLY TECHNOLOGY MEETING--Tianjin, 7 Dec (XINHUA)--The third national annual meeting on power supply technology, jointly sponsored by academic organizations on power supply technology in Beijing, Tianjin, Shanghai and other localities, was recently held in Tianjin Municipality. Some 260 scientific and technological personnel specializing in power supply technology from the ministries and bureaus concerned as well as from all provinces, municipalities and autonomous regions attended and 121 papers were submitted. The meeting held that a national academic organization specializing in power supply technology should be established to promote the development of the technology, strengthen activities of technological exchanges both at home and abroad, strengthen the research on the technology and work out short-term plans for developing research. [Beijing XINHUA Domestic Service in Chinese 0344 GMT 7 Dec 80 OW]

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DOMESTIC TRADE

BRIEFS

SHORTCHANGE PREVENTION--Beijing, 15 Dec (XINHUA)--The State Standardization and Metrology Bureau on 12 December issued a circular calling on the standardization and metrology departments at all levels in China to check the accuracy of measuring and weighing instruments in local markets to prevent traders from shortchanging customers. The circular urges the standardization and metrology departments in various localities to join local price control and commercial departments in commodity price inspections and prevent disguised price hiking in the form of short sale. It suggests that standard scales and yardsticks be made available to the public in the markets and village fairs. [Beijing XINHUA Domestic Service in Chinese 1213 GMT 15 Dec 80 OW]

AQUATIC PRODUCTS PRICES--Beijing, 15 Dec (XINHUA)--The State Bureau of Aquatic Products on 13 December issued a circular calling on the departments of aquatic products at all levels to implement the State Council circular on commodity price control and join local people's governments in inspecting the prices of aquatic products. The circular demands that aquatic products be sold at list prices set by the state and prices higher than those listed must be lowered immediately. It bans unauthorized wholesale price hiking by local aquatic products departments. According to the circular, the aquatic products which can be sold at negotiated prices must be sold at prices no higher than their market price on 7 December 1980. The departments of aquatic products are urged to seriously check the negotiated prices and reduce those which are unreasonably high. [OW230127 Beijing XINHUA Domestic Service in Chinese 1228 GMT 15 Dec 80 OW]

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FOREIGN TRADE

BRIEFS

FOREIGN TRADE--Beijing, 4 Jan (ZHONGGUO XINWEN SHE)--Speaking recently on foreign trade work, Vice Premier Gu Mu said that during the period of readjusting the national economy, the foreign trade departments must make positive efforts to help to serve the stability and development of the economy, and strive to fulfill the 1981 import and export plan. Gu Mu said, during the period of readjusting the national economy, the country must continue to increase production, reap bumper harvests in agriculture, and promote the light and textile industries and communications and transport. Hence, foreign trade must continue to grow and develop, and contribute to readjusting the national economy. [Text] [HK050257 Hong Kong WEN WEI PO in Chinese 5 Jan 81 p 1]

IMPORT, EXPORT WORK CONFERENCE--Beijing, 3 Jan--The second national imports and exports work conference was held in Beijing from 12 to 27 December. Over 200 people attended the conference, including leaders of central, provincial, municipal and autonomous regional foreign trade departments. The conference concentrated on studying how imports and exports work can serve the readjustment of the national economy, and also adopted positive measures with regard to future foreign trade work. The conference affirmed the progress resulting from the correct principle of opening up to the outside world. In order to expand foreign trade, the conference decided to fulfill the state import and export plans and arrange general targets for foreign trade, and also decided on criteria for export standards which must be strictly observed. It is also necessary to strengthen economic accounting and make efforts to reduce losses in foreign trade work. Guangdong and Fujian provinces have instituted a special policy and flexible measures in foreign trade. Beginning this year, these two provinces will be responsible for their own foreign trade transactions and their own profit and loss. The import and export companies set up in various places must be officially approved and must also run their business according to regulations. They are not allowed to cut across demarcation lines between different trades or arbitrarily expand their foreign trade business. [Text] [HK050254 Hong Kong WEN WEI PO in Chinese 5 Jan 81 p 2]

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